

**WHAT SERBIA STANDS TO GAIN BY ADOPTING THE
CONSTITUTIONAL CHARTER OF THE STATE UNION OF
SERBIA AND MONTENEGRO?**

(Speech delivered by Mr. Mladjan Dinkic, Governor of the National Bank of Yugoslavia, at the G 17 Institute roundtable “The Constitutional Charter of the State Union of Serbia and Montenegro – Legal, Political and Economic Issues” held in Belgrade on October 22, 2002)

The existing model of the Constitutional Charter of the State Union of Serbia and Montenegro was designed for the purpose of gaining admission to the Council of Europe. In our opinion, however, it is more important first to have a state that will provide a normal life for the citizens of Serbia and Montenegro, and only then to make possible membership in the Council of Europe. Namely, the contents of the Constitutional Charter does not matter a great deal to the European Union – but it should be kept in mind that both the European Union and Montenegro will refer to it in the future.

The Constitutional Charter was written in order to meet the interests of only one party - i.e. Montenegro. The fact that Montenegro does not want a joint state with Serbia was taken as a starting point in the creation of the Charter, and therefore this republic was granted numerous concessions, with all consequences having been considered in relation to its reluctant assent to such a union. Given such circumstances, the absence of a serious public debate on the Constitutional Charter, which is now unlikely to be organized at all, seems to be a huge mistake.

The Constitutional Charter does not deal with basic economic issues that are usually regulated by constitutions (even by constitutions in confederal states), such as currency, monetary policy, the banking system, financial services and the customs system. In addition to not regulating basic economic issues, the economic issues that are included in the Charter are considered in a superficial and vague manner, allowing for arbitrary interpretation (e.g. expressing goodwill that a free movement of goods, capital and services will not be restricted). A key sentence that concerns market operation is that “a common market will be progressively set up within Serbia and Montenegro”, whereby it is neither clear what this means, nor what the timeframe for establishing such a market is.

Furthermore, the existing model does not clarify whether this concerns the Constitutional Charter of an emerging state or of a disappearing state. If the Action Plan for the Harmonization of Economic Systems (June 2002), created by the two governments on the basis of the Belgrade Agreement (March 2002), is considered as a basis for the implementation of the process of progressive establishment of the common market, then this market should be established in three years (it should be remembered that during negotiations, Montenegro first required eight, and then five years for harmonization). However, there are no guarantees that the harmonization of economic systems will be carried out within an acceptable timeframe that would allow economic development of Serbia, because there are no indications that Montenegro is ready to abandon its initial position.

Also, the character, time, method and manner of accomplishing a common market, which should serve as basis for the conclusion of all future agreements with the European Union, the World Trade Organization (WTO) and other organization in the area of the economy, are defined in a rather general way. Economic consequences of such ambiguities and ill-defined solutions could be very critical, i.e. we already have serious problems and considerable economic losses due to the absence of a common customs system between the two republics. This warning can be backed up with concrete examples: the FR Yugoslavia cannot conclude a bilateral agreement on textiles with the EU for more than six months (since Montenegro does not have any interest in this issue), and will also be blocked with regard to the conclusion of Stabilization and Association Agreement with the EU, as negotiations on the harmonization of a customs systems are still underway (whereby damages suffered by the Serbian economy greatly exceed the damage incurred by Montenegro).

The solution by which the financing of a joint state will be commensurate with member states' GDPs is clear (each state pays in proportion to its size). On the other hand, decision-making in the joint state is based on the parity principle, which goes against the principles of the EU. Such a solution indicates that this state union is only in the interest of Serbia, whose citizens are supposed to pay a very high price for remaining in that union (we are not sure this is a position that the citizens of Serbia desire, as the principle of financing and decision-making regulated thus in the joint state is a humiliation for taxpayers in our republic). Instead of parity, it would be better to apply the principle of positive discrimination which gives the smaller state broader space for decision-making, but certainly not parity decision-making.

Also, the prescribed model of financing the joint state provides neither legal nor financial means for undertaking international obligations. It is not even clear what ministry would be entrusted with the task of defining the means necessary for that purpose.

According to the Constitutional Charter, the Parliament of Serbia and Montenegro will be entitled to pass laws and other enactments, inter alia, on issues that arise from the membership of Serbia and Montenegro as the subjects of international law in international organizations (whereby, we wonder whether, due to our membership in the WTO, this Parliament will be in charge of passing the customs law). Also, it is stipulated that the Parliament will pass laws and other enactments on issues concerning standardization, intellectual property, measures and precious metals and statistics, but not on, for example, more important areas such as customs policy, trade regimen, sanitary, fitosanitary and veterinarian inspections, as well as on numerous other areas of the economy that require a common policy.

The Parliament of Serbia and Montenegro shall pass laws and other enactments on the ratification of international agreements of Serbia and Montenegro, providing previous approval of member states' parliaments, which – in view of former cooperation between the two states – implies the possibility that the process of ratification can be blocked to the detriment of Serbia.

The solution to the problem of representation in international financial organizations cannot be subject to political decisions, but must be regulated and conditioned by economic strength of one country, for which reason Serbia has interest in keeping its representatives both in the World Bank and in the International Monetary Fund, and no compromise should be made in that respect.

Some provisions that concern organization of prerogatives, decision-making procedure and the length of tenure of institutions of the new state union can be criticized from the perspective of economic efficiency. Thus, for example, the principle of consensus in decision-making in the Council of Ministers further confirms that this state union is made reluctantly and with serious lack of mutual confidence, whereby it is taken for granted that Serbia wants to stay in the union with Montenegro at any price. No union established in this way has ever worked efficiently or lasted long.

Serbia has transferred its whole international subjectivity to the joint state. Five joint ministries are not sufficient for advocating our interests in all areas of international cooperation, especially since the Charter does not foresee vital prerogatives at the federal level (the minister for international

economic relations is not physically able to cover cooperation in the area of trade, finance, agriculture, economy, ecology, science, transport, energy, labor, health). This will also create a blockade that is, once again, to the detriment of Serbia.

Furthermore, the principle of rotation and the length of tenure of the ministers of foreign affairs and defense (two years) cannot be efficient or sufficient for normal pursuing of their duties and maintenance of their authority.

The Constitutional Charter provides for the right of member states to initiate procedure for changing state statutes after three years, which means that during that period, the realization of one state's interests relies on the good will of the other party. This is not logical given parity in the entire decision-making, which grants disproportionately wider rights to the smaller member state.

The two states are completely different –in terms of size, economic strength and economic structure. It is hence natural for them to have different (even opposite) interests in some areas (e.g. in customs protection). The Constitutional Charter thus gives legal framework to Montenegro to prolong the adoption of laws and ratification of agreements in which its direct interests do not lie, and which, on the other hand, might be crucial to Serbia. The absence of vital prerogatives at the federal level is actually a simulation of a joint state and a major mistake made by Serbia, all out of the desire to become part of the international integration process (namely, the creation of the Constitutional Charter had as its starting point the presumption that the federal state will not have any serious prerogatives and that issues of importance will be settled at the level of member states). Such a position shows ignorance of EU's strategy, which requires the complete opposite – to have only one meritory negotiator in the future union. Accordingly, for both Serbia and the European Union it is better to have a state with clearly defined relations, and not a state with international, but without internal subjectivity.

The fear of a joint state (as designed by the Constitutional Charter) is completely justified, in particular with regard to the fact that Montenegro entered that union reluctantly and under EU's pressure. The price of such a union is not on the agenda in Serbia, as is not the question to what extent such an arbitrary and disproportionate state framework will prevent the implementation of reform and efficient pursuit of basic state functions. As opposed to Montenegro, immediate cooperation with the international community in the area of trade and investments is of utmost importance to Serbia. Serbia does not have time to wait three years. Therefore, enormous

responsibility rests with our politicians if Serbia spends three years as a hostage.

We support the adoption of the Constitutional Charter, but only with certain modifications, i.e. in the form that ensures equal treatment of Serbia and Montenegro. The solution is either to define immediately a functional state, which the EU expects from us (with a common market and respect for positive discrimination in decision-making), or to start diplomatic activity aimed at withdrawal from such union.

The following are our proposals for the improvement of the text of the *Constitutional Charter of the State Union of Serbia and Montenegro*:

1. The financing of a future state union and related decision-making must be resolved more in favor of Serbia, in line with the experiences of the European Union. This means that a larger number of ministerial positions for Montenegro should follow (and require) its higher participation in the financing of that state.
2. The abandoning of the principle of consensus in decision-making in the Council of Ministers so as to prevent the blocking of the decision-making process to the detriment of Serbia.
3. The removal of the provision which concerns membership in international financial organizations, since this should not be discussed at a political level, as this area is regulated by the rules of organizations in question.
4. The removal of the provision that regulates the tenure of ministers of foreign affairs and defense, since such a solution is not functional.
5. And, most importantly – the omission of provisions which define the time framework for withdrawal from the union and the responsibility of a member state that opts for such a step; if the two member states are bound by mutual confidence, then allow for the possibility of earlier withdrawal from the union, without demanding responsibility of the member state for such a decision.

Roundtable organized by the G 17 Institute

CONSTITUTIONAL CHARTER OF THE STATE UNION OF SERBIA AND MONTENEGRO - LEGAL, POLITICAL AND ECONOMIC ISSUES

The G 17 Institute, in collaboration with GTZ, a German organization for technical cooperation, on October 22, 2002, organized the conference **“Constitutional Charter of the State Union of Serbia and Montenegro – Legal, Political and Economic Issues”**. The conference was opened by **Aleksandra Jovanovic**, Head of the G 17 Institute Department of Institutional Reforms. Welcoming the participants, Mrs. Jovanovic stressed that this conference is a part of a wider project on “Monitoring Institutional and Legal Reforms” which is funded by GTZ and implemented by the G 17 Institute. Mrs. Jovanovic explained that this round table is devoted to a very current issue because of the accelerated finalizing activities related to the adoption of a proposal for a Constitutional Charter, to forthcoming meetings of members of the Constitutional Commission with members of the Venice Commission and the approaching deadline for the adoption of the Charter. The topic for this meeting generally resulted from a desire to assess legal, political and economic aspects of possible solutions which are offered by the model, and to link these solutions to the process of stabilization and association with the European Union and with the signing of the Stabilization and Association Agreement, as well as with the announced timeline for the membership of our country in the EU, Professor Jovanovic concluded.

Participants were also welcomed by **Milko Stimac**, G17 Institute CEO, who acted in the capacity of chairmen of the introductory part of the conference. Mr. Stimac stressed that the organization of conferences and roundtables is an important part of the Institute’s main activities, which is the monitoring of the transition process in our country, highlighting obstacles and the proposing of solutions for overcoming these obstacles. As far as the importance and actuality of the roundtable’s agenda are concerned, Mr. Stimac underlined that the continuation of the transition and reforms in Serbia depends on the resolution of this colossal issue, and expressed his hope that the discussion and the conclusions from this conference will contribute to the positive resolution of this problem. Mr. Stimac presented the agenda for the conference and announced introductory speakers.

CONSTITUTIONAL CHARTER AS A LAYMAN’S DOCUMENT THAT IS POLITICALLY ILL-DEFINED – LEGAL ANALYSIS

Zoran Tomic, Professor at the Faculty of Law in Belgrade, in his introductory speech offered legal analysis of the Constitutional Charter from the viewpoint of

both a legal expert and a citizen who is supposed to live in, as Professor Tomic stressed, "a renewed, politically organized society".

Professor Tomic pointed out that the Constitutional Commission had been working bound hand and foot in a political sense, and that its makeup was inconsistent, whereby the Belgrade Agreement itself did not offer much for elaboration; hence, the final result had to be a layman's document that is sometimes politically ill-defined. In Professor Tomic's opinion, the Belgrade Agreement is not likely to change, with only possible changes relating to particular articles of the Constitutional Charter.

The text of Constitutional Charter seems to yield results that are completely opposed to those intended, i.e. it concerns two independent states more than any kind of state union, "since there is neither enough statehood nor enough unity" in this organization for it to be called a state union in a legal sense. The Constitution proposal contains many incoherent para-legal elements that are sometimes contradictory even on paper, and it is a big question how is this going to work at all. According to the text of the Constitutional Charter, Professor Tomic sees Serbia and Montenegro in the following way: as space composed of two states, Serbia and Montenegro, an attempt to create some political and legal integrative elements for united operations, particularly toward the international community. It seems that the outside impression and the recognition of the future union were more important for the authors of the Constitutional Charter, than how it all looks like from the inside. That outside appearance is much more realistic than inside organization, and these two are not in mutual accord. On the basis of everything advanced thus far, Professor Tomic believes that internally this is a confederation, regardless of joint institutions; but from the outside, the future union has para-state features, especially with regard to single international subjectivity.

Professor Tomic considered critically some specific articles and provisions of the Constitutional Charter. Analyzing the way in which relations between the state union and member states are organized, as put forward in the Charter, Professor Tomic pointed out that the primacy of the nominal entirety over its constitutional parts is expressed very shyly, in a few unclear articles (parts 16 and 17 of the Charter). The issue of adjustment of the member states' legislation to the legislation of the state union is also organized in a way that leaves too much space for arbitrary interpretation, which may cause problems in its enforcement. As Professor Tomic underlined, "the problem is not what is written in the Charter, but what is not", leading to the conclusion that this Charter is an attempt to make a quasi-equilibrium between the whole and its parts, which is hardly imaginable even in terms of logic, and which can result in obstructions and abuses, i.e. problems in practical implementation. The clause and provisions which refer to Kosovo and Metohija in the Constitutional Charter are almost entirely copied from the Belgrade Agreement, and they only discuss the consequences of eventual withdrawal of Montenegro from the future union, but do not consider the possibility and consequences of Serbian withdrawal from the

union. Professor Tomic also raised the issue of the president of the future union and of ill-defined and unclear provisions regarding his executive powers and legitimacy; the pursuance of politics by the Council of Ministers; and the vaguely defined powers of ministers.

If it was intended to act as an internal and external cover for joining the Council of Europe, then the Charter attained its goal; however, if projected elements are intended to be functional, i.e. if the Charter is aimed at the citizens' well-being in political and economic terms, then we are very far from Europeization. The case of the Constitutional Charter shows that, unfortunately, political and expert insights and diagnoses still exist separately here, i.e. as parallel worlds, Professor Tomic concluded.

ANALYSES OF THE PROPOSAL OF THE CONSTITUTIONAL CHARTER FROM THE PERSPECTIVE OF THE ECONOMY

Mladjan Dinkic, Governor of the National Bank of Yugoslavia, first stressed that public debate on an issue of such importance as the Constitutional Charter is absolutely necessary and that the fact that it never took place during the preparation of the Belgrade Agreement is a huge mistake, with it being even less likely now that it will ever be held before the adoption of the proposed model. Governor Dinkic also stressed that the Constitutional Charter was written in order to satisfy the interests of only one side – Montenegro, since the basic premise of the Charter was that Montenegro does not want to be in a joint state with Serbia. Numerous concessions were made which are to the disadvantage of Serbia, and all consequences are discussed with regard to the reluctant assent of Montenegro, with a view of encouraging it to join the state. Governor Dinkic is in favor of the adoption of the Charter, but only in the form that treats Serbia and Montenegro equally.

Governor Dinkic stressed that essentially the Charter does not deal with some basic economic issues which are usually regulated by the constitution in all states, including confederations: currency, the banking system and all segments of financial services, monetary policy and the customs system. The question raised in that respect and to which the existing proposal does not offer answer is whether this Constitutional Charter concerns “an emerging state or a disappearing state”.

Governor Dinkic analyzed in detail the Charter, i.e. its particular provisions, from an economic prospective. The Belgrade Agreement itself treats economic issues very superficially and imprecisely, leaving plenty of space for arbitrary interpretations, with the Constitutional Charter not being much better in that regard, as it does not clarify certain points. Thus, a common market, which should be a condition for the conclusion of all future agreements with the EU, the WTO and other economic organizations, is defined in a rather general way in terms of its character, timeline, method, implementation, etc. Economic consequences of such ambiguities and ill-defined solutions could be very critical;

namely, we already have serious problems and considerable economic losses due to the absence of a common customs system between the two republics. This warning can be backed up with concrete examples: FR Yugoslavia is not able to conclude the Textile Agreement with the EU; the Stabilization and Association Agreement with the EU could not be concluded as long as the negotiations on harmonization of the customs systems are underway; damages suffered by the Serbian economy disproportionately exceed those suffered by Montenegro. There is no guarantee that the harmonization of economic systems will be complete within an acceptable timeframe that makes possible economic development in Serbia, since we see no indication that Montenegro is ready to let go of its initial position.

Criticizing the solutions that concern financing and decision-making in the joint state, which is to be organized in accordance with the proportion of GDPs, and on the basis of parity, Governor Dinkic stressed that this is contrary to the principles of the European Union. Instead of the parity principle, it is necessary to apply the principle of positive discrimination which allows the smaller member state larger space for decision-making, but certainly not according to a ratio of 50:50. Also, as concerns the question of representation of member states in international financial organizations, in Governor Dinkic's opinion, this does not depend on political decisions, but is regulated and subject to economic strength of the state in question; therefore Serbia has vested interest in keeping its representatives in the World Bank and the IMF, and there should be no compromise on this point. Governor Dinkic criticized the provision which prescribes that international agreements made by Serbia and Montenegro can be ratified in the Parliament of Serbia and Montenegro only following previous approval by the member states' parliaments; the issue of assuming the other member's liabilities on the basis of credits in case of tardiness or insolvency is not regulated; the principle of consensus in the decision-making procedure in the Council of Ministers; the principle of rotation and of a two-year tenure for the ministers of foreign affairs and defense, which is too short a period for any serious work to be done.

According to everything advanced so far, Governor Dinkic stressed that it is clear that the existing proposal of the Constitutional Charter was designed to meet admission requirements to the Council of Europe; but in his opinion, it is more important to have a good Constitutional Charter, than to join the Council of Europe. This is so for a very simple reason: the contents of the Constitutional Charter does not matter a lot to the EU; however, both the EU and Montenegro will refer to it in the future.

In conclusion, Governor Dinkic gave five suggestions for improving the text of the Constitutional Charter. The first suggestion concerns the question of financing and decision making, which should be sorted out so as to be more favorable for Serbia, and in accordance to the EU experience. This means that more ministerial seats for Montenegro should follow its higher participation in financing the joint state. The second suggestion concerns abandoning of the

principle of consensus in decision-making in the Council of Ministers, so as to prevent the decision-making process from being blocked to the disadvantage of Serbia. The third suggestion refers to the removal of the provision that concerns membership in international financial organizations, since this should not be discussed at a political level, as this area is regulated by the rules of these institutions. The fourth suggestion refers to the removal of the provision that regulates the tenure of ministers of foreign affairs and of defense, since such a solution is not functional. Finally, the fifth and most important suggestion refers to the provision which defines the timeframe for withdrawal from the union and the responsibility of a member state that opts for such a step. Governor Dinkic considers it unnecessary to set any time limit, if member states are bound by mutual confidence, i.e. it is necessary to allow for earlier disintegration and withdrawal without consequences for the member state that opts for such a step.

POLITICAL ANALYSIS AND REASONS FOR THE POLITICAL NECESSITY OF THE CONSTITUTIONAL CHARTER

Vladimir Goati, from the Institute of Social Sciences, at the beginning of his speech gave some methodological notes, stressing that “politics is a skill of the possible”, and in the world of politics, and particularly in the world of democracy, political and economic power does not necessarily coincide, neither should it be based on the extreme ill-spiritedness of political actors – otherwise no document will live to see the light of day.

Mr. Goati stressed that this proposal for the Constitutional Charter is another attempt to regulate relations between Serbia and Montenegro; such attempts are ongoing for 80 years already, in a broader context, particularly since 1992 between these two republics. Mr. Goati gave a short historical overview of relations between Serbia and Montenegro since 1992, stressing that institutional asymmetry has existed from the very beginning of that relation and inevitably resulted in the split that occurred in 1997; under the July amendments Montenegro was completely marginalized and the Yugoslav federation was turned into a fictitious federation. Mr. Goati gave additional explanations necessary for understanding the present relations between Serbia and Montenegro: the boycott of the 2000 Federal Election by Montenegro (less than 25% of voters went to the polls and all seats in Federal Parliament were occupied by the parties loyal to Milosevic) and the mistake made by DOS after the October elections, when this coalition did not distance itself from constitutional rebellion and entered into coalition with representatives who were elected by a quarter of the Montenegrin electorate. Although such a move on the part of DOS was motivated more by practical political reasons than by ill intentions, this was interpreted as a continuation of Milosevic's politics in Montenegro, and even gave impetus to pro-independence tendencies. Given such circumstances, the EU has taken a more active role, out of its own interests

and reasons, and, following a range of imposed conditions, what resulted was the conclusion of the Basic Principles for the Redefinition of Relations Between Serbia and Montenegro. The draft of the Constitutional Charter of the State Union of Serbia and Montenegro contains the same basic principles, i.e. duality, while the state union is seen as a confederation with some mild federal elements and even with elements of consensual democracy. The time limit of three years for this union does not necessarily imply that the union will last only for that period of time, as a rule that "no solution lasts as long as a temporary solution" could very well prove true.

Without denying that the draft of the Constitutional Charter is ill-defined when subjected to serious analysis, Mr. Goati pointed out some of its upside effects. The Draft contains, although not precisely enough, a very important principle in a political sense, i.e. procedural consensus, which is more important than substantial consensus (namely, what to do when an agreement is not reached). As opposed to all former Constitutions (the 1974 Constitution, the 1990 Constitution of Serbia, as well as the 1992 Constitution of FRY) whose provisions tended to reshape reality, this draft of the Constitution takes for its starting point realistic relations, allowing actors to substantiate the offered institutional framework and even to supplement it in the future, a point that Mr. Goati particularly insists on. Of course, Mr. Goati warns that the offered political institutions would not be a step forward in the integration of Serbian and Montenegrin societies, in the absence of good will and desire on the part of political actors. As far as the choice between direct and indirect election of deputies in the Parliament of Serbia and Montenegro is concerned, Mr. Goati stressed that it sparked considerable debate, while it is forgotten that this issue was clearly defined in the Belgrade Agreement, i.e. it is left to the parliaments of member states to agree upon it. Mr. Goati, however, drew attention to one, in his opinion even more important question, which also concerns elections, but which is not on the agenda at present, although it can compromise the work of the union soon after its founding. It concerns a different timeline for the election of representatives to the Parliament of the Union and the parliaments of member states (a majority party or coalition in republican parliaments can be represented as a minority in the Parliament of the Union – resulting in inconsistent status). Therefore Mr. Goati suggests elections to be held at the same time, in order for conflict to be avoided. As for public comments that the Charter offers little, or even nothing, Mr. Goati showed understanding for existing inconsistencies because this is the most that the other side is willing to accept. Again, Serbia has interest in accepting even that little, keeping in mind tangible benefits associated with European integration, as well as in the view of the present situation, which is only worse. At present, we have a high degree of uncertainty in the political life, while the Charter is a step toward lower uncertainty, which is by all means positive. Referring to numerous comments that forecast failure of the Constitutional Charter in advance, Mr. Goati stressed that such determinism in the political sphere does not exist, and offered examples of the Japanese and German constitutions which no one negates, but at the same time no one agrees with the opinion that "what was created as legitimate, will survive as legitimate",

emphasizing that legitimacy is the only resource that can wear away. Mr. Goati concluded that the Constitutional Charter is an open document which might be altered in the future, but which must be of mutual interest and therefore requires mutual confidence.

Dragoljub Micunovic, Chairmen of the Chamber of Citizens of the Federal Parliament stressed that this roundtable is the first public meeting which addresses the issue of the Constitutional Charter, thus proving that it concerns an unusual phenomenon - how the constitution of one country is created. Mr. Micunovic talked about how the Constitutional Charter came about at all, and analyzed our present political situation.

Mr. Micunovic pointed out that the situation under which the charter Charter is being adopted is extraordinary, with adoption being primarily aimed not at regulating relations within the country, but at resolving a political problem and partially a foreign affairs problem. The international community fears further disintegration of states in this region, as this could cause new conflicts and result in numerous new problems. Thus, the announcement of a referendum in Montenegro was a signal to the European Union to act preventively, and not post-festum as in the case of the former Yugoslavia. In Mr. Micunovic's opinion, it is very important to keep this in mind, as this explains all subsequent events. Mr. Micunovic admits that this agreement was aimed at finding conditions under which Montenegro would be willing to stay in the joint state. It is also well known that the adoption of the Constitution is linked to admission to the Council of Europe and the beginning of negotiations on the Stabilization and Association Agreement. Everything advanced so far, in Mr. Micunovic's opinion, indicates that this is a political rather than legal decision, due to a previously set timeframe: to accept this proposal of the Constitutional Charter or to invest additional time and effort in order to resolve the issue of the constitution properly. Mr. Micunovic personally advocates admission to the Council of Europe, as this is, in his view, an opportunity for our country to be forced to accept certain patterns of behavior and generally accepted solutions.

The paradox of the Belgrade Agreement is that the objective of the state union is faster accession of Serbia and Montenegro to the EU, but solutions for the union of these two countries are completely opposite to the principles applied by the EU in its own integration; this is a kind of experiment, but at the same time our reality. Mr. Micunovic therefore highlighted the problematic question of election to the Parliament of the future union. The biggest concession for which the representatives of Montenegro were ready in the process of creating a joint state is that it would have external sovereignty, while internal sovereignty would be left to the republics. Practical implementation of this principle and indirect election would compromise the work of the future union, and that is the reason why Mr. Micunovic is in favor of direct elections. He explained that direct elections by citizens are not foreseen in any institution of the future union – everything is delegated, which is completely contrary to the democratic principles and foundations of all European institutions (the Council of Europe, the European

Parliament, etc.). Then Mr. Micunovic explained in detail the practical reasons for direct elections as the only possible and necessary kind of elections, pointing out that the principle of election must be established in the Charter; in case of indirect election, a problem will emerge with regard to harmonization with EU legislation, i.e. due to the need to pass a great number of new laws and regulations; the absence of accountability and sanctions for representatives selected by another political institution, as well as the impossibility of dissolving Parliament for the same reason; in a nominal sense, such a Parliament cannot be our representative in any European institution, as representatives in these institutions are voted directly. Only if the plan was to have two independent republics, direct election would not be a good solution, Mr. Micunovic stressed, but the economic and not the political aspect of the problem appears here, which was the only one considered by the EU when it proposed such a solution. The EU wanted to do away with our disunity, i.e. it wanted to have one fully accountable partner for negotiations.

In conclusion, Mr. Micunovic recommended that the presidential elections in Serbia and in Montenegro, called for December, be used for federal elections as well, thus avoiding indirect elections in the two republics.

INCOMPETENCE OF EXPERTS AND THE QUESTION OF LEGITIMACY OF THE TEXT OF THE CONSTITUTIONAL CHARTER

Slobodan Gavrilovic, a member of the Constitutional Commission delegated by the Federal Parliament criticized the way in which certain issues are regulated in the Constitutional Charter. Mr. Gavrilovic first pointed out the importance of the international context, as Serbia, Montenegro and FRY, according to the Belgrade Agreement, will give up their sovereignty for three years. Another question refers to the way the joint state is financed, since the cost of integration to the European structures could hardly be covered by the revoked federal taxes, while statements that funding through allocations from the republics' budgets is less costly, Mr. Gavrilovic sees as sheer demagogy. Closely related to this issue is the advice of the Venice Commission that, without its property and budget, the future state union is not likely to be fully accepted, which leads to the conclusion that no one will be likely to make any serious arrangements with "a poor man who is under foster care". Finally, in Mr. Gavrilovic's opinion, it is clear that what is at issue here is one state from the outside and two states on the inside, which can hardly be realized in practice.

The Constitutional Charter does not contain words like citizen and responsibility, which is not a coincidence, since in an ideological sense, this is a communist Constitution. Mr. Gavrilovic also objected to the lack of hierarchy in the legal enactments in this document, although the first significant chapter in the proposal of the Venice commission concerns the hierarchy of legal regulations. In conclusion, Mr. Gavrilovic assessed as immoral the behavior of political structures in Montenegro, which has not been paying its contributions to the federal

budget, but makes use of all its services when it is in Montenegro's interest. At the same time, Montenegro asks for parity in the future state union not only in the Government but also in diplomatic missions and even in the composition of army generals.

Srdjan Simikic, a member of the Constitutional Commission delegated by the Republic of Serbia explained briefly the reasons for the situation we found ourselves in with regard to the Constitutional Charter. In Mr. Simikic's opinion, the main reason lies in the lack of respect for procedures. Given the content of the Belgrade Agreement, it can be concluded that there are two groups of constitution-makers – actual ones represented by the Constitutional Commission, and the formal ones, in the form of the Parliament, whereas the will of the Parliament is limited by the contents of the Belgrade Agreement. The Constitutional Commission has started work, has set procedural rules and completed the first stage of work by creating the text of the Constitutional Charter. The text of the Charter contained numerous alternatives and problems appeared when it came to the reconciliation of these alternatives, as this concerned political issues which blocked the work of the Constitutional Commission. The solution was found by addressing the signatories of the Belgrade Agreement in order to overcome political problems. However, further work on the creation of the Constitutional Charter was not performed by the Constitutional Commission, but rather by incompetent institutions which attempted to impose different versions of the text of the Charter. Consequently, assessment of particular provisions of the Charter concerns a text which was not laid down by the Constitutional Commission, and the question remains who is the actual author of that text. If the answer is that this text of the Constitutional Charter was prepared by the governments of the two republics, Mr. Simikic explained that the Government of Serbia has not set up any working group or commission; neither has it discussed any text of the Constitutional Charter at any of its sessions. Mr. Simikic therefore concluded that regardless of the good intentions of such a public debate, which is absolutely necessary, he is uncertain as to the legitimacy of this text, as to who is its author and whether it will at all be the subject of discussion for the Constitutional Commission.

THE OBJECTIVE OF THE CONSTITUTIONAL CHARTER – MEMBERSHIP IN THE COUNCIL OF EUROPE

Radoslav Stojanovic, Professor at the Faculty of Law in Belgrade clearly stressed that it is in the interest of Serbia to adopt the Constitutional Charter since this is in the interest of both Europe and the international community; thus Serbia will fulfill its mission of gaining presence in the international community, but with respect for "the rules of the game" which are set by that community. This is the very task of this Constitutional Charter, which, admittedly, contains considerable shortcomings in legal terms.

The documents which regulate the state must contain two essential elements – political will and the decision-making process. The proposal of the Constitutional Charter is the maximum that could have been obtained, given Montenegrin opposition, i.e. the lack of political will on the part of Montenegro. Before explaining the decision-making process, Professor Stojanovic briefly commented on the context of international law and relations in the future union. Since such a text cannot foresee all procedures, it is necessary at least to prevent possible conflicts. Professor Stojanovic thinks that the provision by which the ratification of international agreements is subject to prior approval by the republican parliaments is good, as a similar provision is present in the constitutions of all federal states. However, what is not written in the Charter and what may result in conflicts, is who will implement these international agreements. This issue is not regulated by the Constitution, but by laws, while the Constitution must clearly stipulate whose prerogative this is (of member states or of the government of the union). Another important issue, i.e. decision-making process, is also not present in this Charter. However, the objective of this Charter is full of optimism; that is, the Charter will enable us to be members of the Council of Europe and to conclude the Stabilization and Association Agreement. This implies our obligation to respect certain procedures that are in force in the EU; and, very importantly, all conventions of the Council of Europe (over 35 Conventions) will become an integral part of our legal system, which, again, provide the best regulations in many areas and much better protection than that stipulated by the Constitutional Charter (the Convention for the Protection of Human Rights and Fundamental Freedoms, the Convention for the Prevention of Torture and Inhuman or Degrading Treatment or Punishment, etc.). If admission to the Council of Europe is targeted as urgent for our country, then the adoption of the Charter just as urgent, Professor Stojanovic concluded.

THE PROBLEMS WILL NOT BE RESOLVED BY PRACTICE OR BY THE EU – MANY THINGS DEPEND ON US

Milena Jovicic, Professor at the Faculty of Economics in Belgrade pointed to certain shortcomings of the Charter from an economic perspective. The problem is that the Charter does not define ways which ensure the survival of a common market. This practically means that Serbia must accept the Euro since Montenegro does not want to accept the Dinar once again. Also, the future union will not have a federal budget and Serbia will have to abandon tariff rates if Montenegro does not want to raise them. The point is that a system thus organized cannot be efficient. Professor Jovicic stressed that, theoretically speaking, a joint state will be deprived of some powers in terms of economic policy that are immanent to each state. In her opinion, there are plenty of ill-defined elements concerning the economy, which must be defined more precisely for the sake of a common market; these problems are not likely to be resolved in practice, because Europe will take us under its wing. However, we

are not very likely to become an EU member in the near future; furthermore, none of the present applicant countries had to abandon their monetary and customs systems and all other elements for which Montenegro has little use, but which are necessary in Serbia. In conclusion, Professor Jovicic stated that this problem concerns politicians more than experts.

Tanja Dinkic, head of the Department for Cooperation with the EU in the Federal Ministry for International Economic Relations, stated that membership in the Council of Europe is very important for our country because, among other things, of the adoption of all international regulations that we would otherwise adopt very slowly and with difficulty on our own. Mrs. Dinkic also warned of the difference between the adoption and implementation of these regulations. Mrs. Dinkic pointed to the example of Bosnia and Herzegovina, which is a member of the Council of Europe, but regardless of a daily foreign presence, this country has not signed the Stabilization and Association Agreement yet. This indicates, as Mrs. Dinkic stressed, that foreign presence is not decisive, but that much depends on us. Also, problems that can arise with regard to future relations with the EU if the Constitutional Charter in its present form is adopted have already appear (where should financial aid be directed if there is no a single central bank), although it is the EU which insists on speedy adoption of the Charter, Mrs. Dinkic concluded.

CAREFULLY WITH INTERNATIONAL PUBLIC LAW, WE MAY NEED IT

Vesna Knezevic-Predic, Professor at the Faculty of Political Sciences in Belgrade raised the question whether there is too much or too little international law in the proposal of the Constitutional Charter. In Professor Knezevic-Predic's opinion, the answer is not simple at all, as there is "a simultaneous surplus and deficit of international law" in the Constitutional Charter.

International public law is a rational instrument for achieving some needs of one country on the international level, since it takes as its starting point reality and has the ambition to regulate a relatively small segment of that reality which concerns international relations of a country. International law begins in the state because of sovereignty and the possibility of enforcing both national legislation and international law; namely, only as long as the state is sovereign inside, it can be sovereign outside. Only then international organizations, i.e. international law in general, would accept that country as one of its subjects. In the context of what was advanced so far, Professor Knezevic-Predic believes that the idea of external sovereignty of the future union can be acceptable only for a while. The moment when the future state union is no longer able to fulfill the few requirements set before it by international law, it will become dysfunctional. Pointing out that international law does not rely on any special concept of sovereignty, but essentially concerns the concept of internal law, Professor Knezevic-Predic criticized the fact that this basic concept is not mentioned in the Constitutional Charter at all, but is replaced with the concept of international

subjectivity, and this only in the part that concerns membership in international organizations. Also, in the part that concerns international agreements, which stipulates the primacy of international law, Professor Knezevic-Predic objects that it is not precisely laid down what international law is at issue (common law, basic principles of international law, etc.). In conclusion, Professor Knezevic-Predic stressed that as far as the withdrawal of one member state and transfer of rights and liabilities to the newly-formed states is concerned, international law was completely ignored. Since this, at the very least refers to succession, instead of to dispositive rules on succession as set out in international law, rules that are very flexible, this issue is resolved by referring to one long and unpleasant process on succession of the former SFRY, which was not satisfactory to anyone, Professor Knezevic-Predic concluded.

A NEED TO SORT OUT PRACTICAL ISSUES THAT CONCERN CITIZENS

Radovan Jelasic, Vice Governor of the National Bank of Yugoslavia first observed that it was necessary to begin discussion of these issues much earlier, especially of practical issues that will affect citizens' lives. At the NBY's initiative, a set of talks with the Central Bank of Montenegro was started in order to try to sort out some technicalities regarding harmonization of the monetary area (exchange of currency, payment operations, etc.). Mr. Jelasic stressed that these issues can be resolved in a very short period, providing that there is mutual political will, but that they have been under discussion for four months now. Mr. Jelasic also stressed that the three-year period will provide for the process of mutual harmonization between Serbia and Montenegro as they choose to proceed, which will be followed by the process of harmonization with the EU on the basis of what has been done earlier and according to the EU's agenda. Mr. Jelasic pointed to the significance of constitutional law, which should work out certain concrete questions related to the work of institutions and citizens' lives in general. In Mr. Jelasic's opinion, it is much better to take our time in regulating these issues now, even if it means later adoption of the Charter, since the adoption of the Charter on the pretext of faster accession to Europe is far from what we need, Mr. Jelasic concluded.

CONSTITUTIONAL CHARTER AS THE ONLY RESPONSE TO THE UPCOMING CHALLENGES

Predrag Simic, adviser to the President of the FRY, presented a brief but detailed analysis of the situation in which our country finds itself now, which clearly implies urgent need to adopt the Constitutional Charter. In his introduction Mr. Simic stressed that the basic objectives of FRY's foreign policy were defined a year ago: admission to the Council of Europe and Partnership for Peace, and conclusion of the Stabilization and Association Agreement with the EU. This pro-European orientation was set with the aim to finally reach a legal

system that was impossible to build in the last 15-20 years. Furthermore, speed, i.e. the concept of time must not be taken relatively. This does not concern our accession to the EU, but the fact that our neighborhood is changing rapidly. We are already surrounded by NATO members, while, with the accession of Hungary, and later of Bulgaria, Romania and Croatia (which may become a serious candidate for accession in the same round as Romania and Bulgaria) to the European Union, our country will have Shengen borders with its neighbors. Mr. Simic is especially worried about our economy, giving the example of Greece, since after its admission to the EU, our exports to this country were marginalized. In Mr. Simic's opinion, given the described circumstances, Europe will not inevitably take care of us, but quite the opposite – due to the considerable problems that are recognized in Montenegro, as well, it is more likely to abandon our case. That is why the adoption of the Constitutional Charter is so urgent, especially for Serbia, although Mr. Simic agrees that as it stands, it is not a legal document. Without the adoption of the Constitutional Charter, he does not see how this country will be able to respond to these upcoming challenges, regardless of whether we take some steps or not.

NOT TO SEARCH FOR ANSWERS IN ADVANCE BUT TO LEAVE PRACTICE TO SHOW

Dusko Lopandic from the Federal Ministry of Foreign Affairs said that there cannot be an answer in advance to whether the future state union will work or not. Practice should provide that answer, which is also the EU's approach to this question. Instead of negotiations on concluding the Stabilization and Association Agreement, the currently topical issue are the negotiations on the customs system in order that the Agreement on Textiles can be concluded, as well as the issue of the system of visas. Hence, this concerns practical issues that are of importance for citizens' daily lives, while it remains for practice to show whether such an arrangement is possible or not. This Constitutional Charter should be discussed from that viewpoint and can be supplemented or even changed later, Mr. Lopandic concluded.

Conclusion

All participants agreed that this important topic should have been discussed much earlier, but although necessary, public debates on the Constitutional Charter have not been held. Besides this common position, opinions are largely divided. The first opinion is that the proposal of the Constitutional Charter is a legally and politically ill-defined document which will not prove efficient in practice, i.e. it is necessary to make a detailed effort on the adoption of a real constitution, which would regulate all critical issues properly, even at the price of not being admitted to the Council of Europe by the scheduled term. Another opinion is much more pragmatic and considers the Charter to be aimed at

admission to the Council of Europe with all accompanying benefits for our country, while a real constitution can be adopted later.

Through this meeting, the first of this kind, as was pointed out by many participants, the G 17 Institute made possible confrontation of opinions which are, as can be seen, deeply divided, and thus gave its contribution to the resolution of such an important question for the future of our country.

Macroeconomic Topic 1

Kosovka Ognjenovic, M.S.¹

ANALYSIS OF THE RESULTS OF THE SURVEY OF INCOME AND OPINIONS OF THE POPULATION OF SERBIA

The G 17 Institute conducted in July 2001 the first poll on the income and opinions of the population of Serbia. Sample design, preparation of surveyors and the polling process itself were carried out by experts of the company “Strategic Marketing”. A total of 2006 households were polled. The sample was drawn from three areas on the territory of Serbia – Vojvodina, Central Serbia and Belgrade. The method of stratified sampling was applied. The observed units, i.e. households, were sampled on the basis of two-stage stratifying of sampling without repetition. At the first level was a stratification of voting places proportional with the number of voters, which was followed by the selection of households, whereby each household had equal chance of being sampled. In the next iteration, a person over 18 years of age from each household was selected at random. For that reason, the structure of the questionnaire can be conditionally divided into two parts. The first part of the questionnaire comprises information on demographic characteristics of all household members, on durable consumer goods owned by the household, on its major expenditure and the sources of total income. The second part comprises basic information on a respondent chosen at random, her/his opinion on personal economic position and the position of the household as a whole, the assessment of certain social and economic categories, the assessment of the Government’s measures and estimation of the time necessary for that household to feel at ease, as well as information on the impact of undergone reforms on the change of ownership in the enterprise in which the respondent is employed.

Less than a year later, in May 2002 another survey was conducting, polling 1,512 new households. Household sampling was based on the same methodology as in the previous poll. The previous content of the questionnaire, besides more complete coverage of main expenditure of one household, was supplemented with questions which may be useful for the monitoring and assessment of the speed of adjustment of the labor market to

¹ This analysis was made with precious assistance of Mr. Branko Milanovic.

the new circumstances. The results of last year's poll² will be used for comparison with main indicators calculated on the basis of the latest poll. The poll was processed in the statistic package STATA 7.0.

1. Basic Characteristics of Households

1.1 Demographic Characteristics of the Polled Households³

A total of 1,512 households were polled in three regions in Serbia - Central Serbia, Vojvodina and Belgrade, 53.3% of which are on the territory of Central Serbia, 25.8% in Vojvodina and 20.8% in Belgrade, in proportion to population density. Out of the total number of polled households, 89% are non-agricultural, while 60.4 are urban households. Gender sampling is equalized. Women constitute 51.1 of respondents. According to the poll, the average number of household members is estimated at 3.3. With regard to deciles, the average number of household members is permanently decreasing, in a range from 4.1 in the first to 2.4 in the last decile.

The average age of the respondents is 46 years for both sexes. The sample comprises 4.3% children up to 6 years of age, whereby as many as 86% of the polled households do not have children of pre-school age. Children and teenagers between the ages of 7 and 19 covered by the poll constitute 13.2%, while those over 65 years of age account for 14%. 65% of respondents over 18 are married or live in a domestic partnership.

Table 1 –Structure of Respondents by Profession and Sex, May 2002

Profession of Respondent	In percents		
	Total	Female	Male
Other than agriculture	44.7	39.4	50.4
Farmer	5.3	2.8	7.9
Unemployed – seeking work	8.4	7.5	9.3
Part-time employment	2.2	1.3	3.1
Personal income holder (pensioners, etc.)	22.6	22.2	23.0
Housekeeper	10.7	20.4	0.3

² Results of the first G17 Institute Poll on the Income and Opinions of the Population of Serbia were published in the G17 Institute Economic Review by authors Branko Milanovic and Kosovka Ognjenovic under the title "Low Wages and Diminishing Patience".

³ Demographic characteristics of respondents do not differ significantly from the results of the previous analysis and maintain the characteristics of selected sample.

Pupil / student	5.9	6.0	5.8
Incapable of working	0.3	0.4	0.3
Total	100.0	100.0	100.0

Source: G17 Institute's Poll On The Population's Income And Opinions

Individuals employed in the non-agricultural sector (44.7%) dominate in the structure of respondents by activity (Table 1). Farmers account for 5.3% in the total structure, the unemployed for 8.4% and persons with personal income for 22.6%. Supported categories of the population (homemakers, pupils and students, and those incapable of working) account for 16.9%. The unemployment rate⁴ is 14.1%, calculated on the basis of the Poll, which is up by 0.7 percentage points compared to the rate calculated in last year's Poll. The unemployment rate of females is 14.8%, and is usually higher than the male unemployment rate, which is estimated in this Poll at 13.6%.

On the other hand, respondents who have completed high school (58.4%) and elementary school (15.4%) prevail in the structure of respondents by education (Table 2). 16.1% of respondents have completed university or two-year post secondary education, while 9.8% of respondents have no education. According to the Poll, the citizens of Serbia have an average of 11 years of completed schooling, which corresponds to the prevailing incidence of respondents with high school education. Men have an average of 11.5 years of education, while women have a year less.

Table 2 – Structure Of Respondents By Education And Sex, May 2002

Level of Education	In %		
	Total	Female	Male
No education	2.6	4.2	1.0
Grades 1 – 3	1.9	2.6	1.3
Grades 4 – 7	5.3	6.5	4.1
Primary school	15.4	17.6	13.1
High school	58.4	53.3	63.8
Two-year post-secondary education	6.8	6.3	7.4
University	9.3	9.4	9.1
Unknown	0.2	0.2	0.3

⁴ The unemployment rate, according to the standard pattern, is calculated as a ratio between the unemployed and the sum total of those working - those employed in the non-agricultural sector, farmers, those occasionally employed and the unemployed. The total unemployment rate, calculated on the basis of figures from the poll is always significantly underestimated in comparison to the registered unemployment rate. The total registered unemployment rate in Serbia in 2001 was 27.7%, while in April 2002 it was 28.3%.

Total	100.0	100.0	100.0
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Source: G17 Institute's Poll On The Population's Income And Opinions

1.2 Possession of Durable Consumer Goods in Households

The results of the Poll indicate relatively good housing conditions in the polled households, although 12 % still do not have a telephone and 6% have no bathroom. The estimated housing space per member of a household is 27.8 square meters.

Analysis of the possession of durable consumers goods in households in Serbia is supplemented with information on the average age of the appliance that was bought last, as well as on its average estimated value (Table 3). A very high share of the polled households, over 90%, possess a TV set, a boiler and refrigerator, while slightly fewer own a laundry machine and freezer. According to these figures, we can conclude that households are well equipped with basic home appliances. However, the average age of appliances in question exceeds 10 years, except for TV sets, whose average estimated age is 6.5 years. A half of the households polled posses a car of the average age of 10 years, which is four years less, compared to the results of the previous poll. The results of the latest Poll confirmed last year's findings, according to which 12% of households have a personal computer of the average estimated age of 3.5 years.

Table 3 – Possession of Durable Consumer Goods in Households

	Equipment	Average age	Average value (in YuD)
	Mean (standard deviation)		
Car	0.51 (0.50)	10.30 (5.75)	81.731,02 (95.912,76)
TV set	0.94 (0.24)	6.46 (3.58)	6.068,15 (4.288,0)
VCR	0.42 (0.49)	10.25 (4.46)	5.935,42 (4.002,65)
CD player	0.16 (0.37)	4.47 (3.43)	3.862,53 (2.227,24)
PC	0.12 (0.33)	3.46 (2.53)	24.65,94 (17.039,97)
Washing Machine	0.86 (0.34)	13.24 (7.05)	5.951,44 (3.905,74)

Dish washer	0.05 (0.21)	9.37 (5.52)	8.217,73 (5.305,76)
Storage Heater	0.34 (0.47)	14.73 (6.60)	5.662,97 (2.900.54)
Boiler	0.92 (0.27)	13.10 (7.54)	3.114,75 (2.457,25)
Refrigerator	0.98 (0.15)	15.16 (8.10)	4.448,08 (3.019,38)
Freezer	0.85 (0.36)	14.12 (6.37)	5.851,95 (3.563,05)

Source: G17 Institute's Poll On The Population's Income And Opinions

1.3 Total Expenditures and Sources of Total Income of Households

The first part of the poll ends with a detailed structure of total monthly expenditures and income of households. The major item in the total expenditures of households (Table 4) concerns food expenditure, which reach as much as 40% in non-agricultural households. This item is a little less in agricultural and mixed households, amounting to 31.4%. However, food expenditures should be observed together with the value of natural consumption. In the structure of total expenditures, these two items account for 45% in all households i.e. 43.5% in non-agricultural households, or over 50% in rural households. Besides expenditures for living necessities, a significant group of expenditures concerns the costs of hygiene, beverages, tobacco, clothes and footwear, which constitute 21% of total expenditures of all households. It is interesting that monthly expenditure for tobacco and beverages account for 6.9% in total expenditures, thus exceeding monthly spending for health services and education. These two items together account for 5.6% in total monthly expenditures, and are at the level of monthly spending for consumed electric power (5.5%) and a wide group of expenditures that comprise commuting fares and gasoline costs (5.9%).

It would be certainly interesting, in real expression, to compare changes in the structure of expenditure with the results of last year's poll. However, due to poor coverage of certain types of expenditures in the previous poll⁵, such a comparison is not possible.

⁵ If we compare the structure of total expenditures from this poll to the structure of spent resources from the Household Budget Survey (HBS) made by the Federal Statistics Bureau, which covered the whole of last year, there are certain differences. A cross section from May 2002 shows significantly lower share of food expenditures in all households (38.3%) relative to the year 2001 as a whole. According to the figures in HBS, households in Serbia in 2001 spent on average of 51.2% of total resources on food.

Table 4 – Household Monthly Expenditures, May 2002

Expenditure	In %		
	Households total	Non-agricultural	Agricultural and mixed ⁶
Health services (treatments, purchase of medicines)	2.7	2.8	2.5
Education (books, fees, stationary)	2.9	3.0	2.3
Vacations (travel and accommodation costs)	2.0	2.2	1.0
Furniture and home appliances	1.7	1.7	1.6
Taxes	1.3	1.2	2.0
Food	38.3	39.5	31.4
Estimated value of natural consumption	6.5	4.0	20.6
Personal and household hygiene	6.9	6.9	6.5
Tobacco and beverages	6.1	6.2	5.3
Clothes and footwear	8.0	8.0	7.6
Electric power spent	5.5	5.6	4.8
Fixed telephone costs	2.1	2.2	1.2
Mobile telephone costs	1.3	1.4	0.7
Rent and utilities	2.5	2.8	0.9
Transport (including commuting fares and gasoline costs, etc.)	5.9	6.0	5.5
Sport, recreation and culture	0.8	0.9	0.4
Catering services	1.8	1.9	0.9
Other services (including costs of repairs in flat/ house, of home appliances and car)	3.8	3.7	4.7
Total expenditure	100.0	100.0	100.0

Source: G17 Institute's Poll On The Population's Income And Opinions

The analysis by deciles shows that average monthly expenditures are continually increasing, starting from the poorest part of the polled households to the last decile, which comprises the wealthiest respondents

⁶ Agricultural and mixed households account for 11% in the sample

(Table 5). The average monthly expenditures in the first decile are 6.8 times lower than the expenditure of the wealthiest respondents, while the average monthly expenditure of all households is estimated at YuD 6,144.9. The analysis of the structure of particular expenditure by deciles shows that the poorer spend more of their total resources on health services, hygiene, food, electric power, tobacco and beverage compared to wealthier respondents. On the other hand, the wealthier spend more on trips and vacations. Natural consumption is most pronounced between the second and the fourth deciles, among the poorest, while the third and the last deciles spend an equal portion of their resources on clothes and footwear. The highest portion of total resources spent on education is in the fifth and sixth deciles.

Table 5 – Household Expenditure Per Capita And Structure of Expenditure Per Deciles, May 2002

Decile	Household monthly expenditure per capita (in YuD)	In %									
		Health services	Education	Vacation	Food	Natural consumption	Hygiene	Tobacco and beverages	Clothes and footwear	Power Consumption	Transport
First	2,067.8	3.6	1.9	0.1	48.3	4.9	8.0	6.4	6.1	9.2	4.0
Second	3,151.5	3.9	2.3	0.7	44.0	8.0	6.9	6.7	5.9	7.5	4.4
Third	3,861.3	2.9	3.0	1.1	41.0	6.8	6.5	7.1	8.6	6.5	4.8
Fourth	4,457.0	3.0	2.6	1.2	42.3	8.6	8.0	5.2	6.9	5.6	5.4
Fifth	5,029.8	2.9	3.3	1.2	43.4	5.6	7.4	7.0	6.7	6.0	5.3
Sixth	5,714.1	2.8	3.0	1.5	41.5	5.7	7.0	5.3	8.1	6.0	5.6
Seventh	6,564.1	3.0	2.2	1.6	41.5	6.3	7.3	6.7	6.4	5.2	5.3

Eight h	7,513.2	2.8	2.4	2.1	40.7	4.5	7.0	5.9	8.0	4.8	5.7
Ninth	9,103.8	2.5	3.2	2.6	39.3	5.5	6.7	4.9	7.4	5.1	5.5
Tenth	14,082.9	2.8	2.6	3.9	31.6	4.3	6.4	5.9	8.6	5.0	6.9
Total	6,144.9	2.9	2.7	2.1	39.4	5.6	7.0	6.0	7.6	5.6	5.6

Source: G17 Institute's Poll On The Population's Income And Opinions

On the other hand, the polled households achieve the most significant share of their total income (Table 6) from earnings by working in main and additional activities and income from private business which is not registered as income achieved through a company or shop. These three items constitute 63.4% of the total income structure. Income achieved through various forms of social benefits account for 15.6% in total income. According to the figures obtained in this Poll, total remittances and gifts account for as much as 8.3%. Such a high share of remittances results from increased inflow of gifts in goods and money from foreign countries. In the structure of total income sources, net income from own estate-shop is not irrelevant and amounts to 11%. Net income from own estate-shop is especially high in agricultural and mixed households (39.6%), and together with a portion of income from work (45.7%) constitutes the major share of total income in these categories of households. At the same time, when we speak about non-agricultural households, besides regular income from work (65.8%), a significant portion in the structure of total income refers to social benefits (16.4%). The comparison of the obtained structure of total income sources with the results of the previous poll does not imply any significant changes.

Table 6 – Main Household Monthly Income Sources

Income source	In %		
	Total households	Non-agricultural	Agricultural and mixed ¹
From work within main activity	47.6	50.1	29.3
Additional activities	7.7	7.9	6.1

Private unregistered activity	8.1	7.8	10.4
<i>Total income from work</i>	63.4	65.8	45.7
From sick-leave	0.8	0.9	0.1
Social benefits (from state) in money	0.2	0.2	0.1
Estimated value of social allowances received from the state in goods and services	0.2	0.2	0.2
Pensions, disability benefits	12.8	13.6	7.2
Children's allowance	1.0	1.1	0.9
Unemployment benefits	0.3	0.3	0.5
Scholarships	0.3	0.3	0.2
<i>Total social benefits</i>	15.6	16.4	9.1
Gifts in money from the country	1.7	1.9	0.6
Gifts in money from abroad	2.9	3.0	2.1
Gifts in goods and services from the country	1.2	1.3	0.8
Gifts in goods and services from abroad	2.5	2.7	0.9
<i>Total remittances and gifts</i>	8.3	8.9	4.3
Net income from	11.0	7.1	39.6

own estate-shop			
Benefits and subsidies	0.3	0.3	0.0
Rent, interests, dividends	1.4	1.5	1.2
Total income	100.0	100.0	100.0

¹ Agricultural and mixed households account for 11% in the sample

Source: G17 Institute's Poll On The Population's Income And Opinions

Table 7 – Household Income Per Capita And Structure Of Main Income Sources Per Deciles, May 2002

Deciles	Monthly household income per capita (in YuD)	In %					
		Wages from main activity	Wages from additional activity	Social benefits	Remittances and gifts ¹	Net income from own estate-shop	Income from private unregistered activity
First	1,886.5	37.2	4.4	28.8	3.9	14.3	9.7
Second	2,945.4	37.0	5.9	26.1	5.3	12.0	12.6
Third	3,597.0	49.4	6.3	19.9	3.6	12.3	7.5
Fourth	4,407.7	53.0	5.7	17.7	5.5	11.6	5.1
Fifth	5,051.5	54.4	5.0	16.4	3.2	11.8	7.6
Sixth	5,826.5	48.6	6.1	19.6	4.8	11.8	7.0
Seventh	6,730.6	48.2	7.8	15.9	7.6	10.7	7.6
Eighth	7,738.4	49.9	7.8	21.6	4.6	7.4	7.1
Ninth	9,427.2	47.9	8.0	18.1	10.2	6.8	6.1
Tenth	15,835.4	38.2	8.8	13.5	19.3	10.1	6.9
Total	6,305.8	45.9	7.3	17.9	9.3	10.1	7.2

¹ Remittances and gifts include income in money and the estimated value of gifts in goods and services received from relatives and friends from the country and abroad.

Source: G17 Institute's Poll On The Population's Income And Opinions

The average monthly income per capita estimated on the basis of the Poll is YuD 6, 305.8 (Table 7). The average monthly income of the poorest (the first decile) is 8.4 times lower than the average monthly income in the tenth decile. With regard to last year's figures, this indicates a decrease in the gap between income of the poor and of the rich that were polled. The average

income of the richest (tenth decile) in last year's poll was 12 times higher compared to the average income of the poorest (first decile).

Earnings from main activity are the most important income source in the structure of total income in the fourth and fifth deciles. Various forms of social benefits (28.8%), together with earnings from the main activity (37.2%), constitute the major portion in very low average monthly income of respondents from the first decile. Net income from own estate-shop exists as the most important income source among the poorest, i.e. in the first three deciles. Income from unregistered private activity, which is not included in regular income based on business performance of a company or shop, is also a significant element in the total income in the first two deciles. Wages from additional activities, and remittances and gifts from the country and abroad account for the most significant total income source among the richest.

The average monthly income per capita in real terms increased by 43.9% relative to monthly income estimated by last year's poll. Other indicators calculated on the basis of the Poll, i.e. average income from main and additional activities, also registered a growth in real terms. Compared to last year's poll, a slightly smaller percentage of respondents (31.2%) who earn their salaries through main activity were receiving additional income⁷. The average wage per hour within the main activity is YuD 55.5, and from additional activity YuD 65.3.

Indicators of inequality in household income and expenditure measured by the Gini coefficient are 32.1 and 29.0 respectively. The value of the Gini coefficient calculated in the previous poll, as a measure of inequality of household income per capita was 37 points, thus implying higher degree of inequality. However, these figures should be taken with reservation, as the data on income and expenditures in the G 17 institute Poll does not address longer periods of time, as is the case with the Federal Bureau of Statistics' HBS, which covers the period of three months. The Poll of the G 17 Institute deals with household income and expenditures for only a one-month period. In a comparison between the average monthly expenditure of a typical household in Serbia and the average monthly income, income exceeds

⁷ However, in the total sample, 21.1% of respondents are performing additional activity. The results of the Poll show that additional activities are more frequently performed by respondents who have completed high school (20.6), compared with the respondents with two-year post-secondary education or a university degree (14.7%). Men are more involved in additional activities (23%), as well as the respondents who live in rural localities (19.7%). The most usual reasons for abandoning additional activities concern lack of demand for particular skills and family problems (64.4%) or the lack of spare time (15.2%) or that respondents are able to earn enough within their main activity (13.2%). It is interesting that as little as 1.3% of respondents reported that they do not perform additional activity due to the problems concerning unfulfilled tax obligations towards the state.

expenditures by 2.6%. The growth in income recorded in May could be explained by the registered positive saving of households and by a significant share of remittances and gifts that are not followed by corresponding items on the side of expenditures.

2. Opinions Of The Respondents

2.1 Respondents' Opinion on Their Own Economic Situation

In last year's poll, we defined an indicator which stands for the assessment of household's economic situation and named it G 17 Institute Index of Subjective Economic Situation. Out of the possible grades that range from 1 to 5, respondents assessed their current economic situation with the average grade of **2.41**. Compared to the assessment that respondents made in last year's poll, which was **2.27**, the economic situation has evidently improved slightly. The obtained average grade can be explained by variation in the number of respondents who assessed their situation as mediocre (39.8%), bad (33.1%) and very bad (17.9%), while a small percentage (9.2%) assessed their situation as good or excellent.

Individual assessment of household's economic situation is better understood through the observation of respondents' opinions on the possibilities of improving their current situation. On one hand, 26.5% of respondents are passive, making no attempts to improve their situation, while believing that nothing can be done in that respect, while, on the other hand, the same percentage of respondents (26.4%) are trying to make some savings by farming or by engaging in other profitable activities. The group of 21.8% encompasses those who live in households whose members are seeking jobs at present and who are expected to provide additional income source for a household in the future. The minimal amount of money necessary for meeting basic living necessities in a household as estimated by respondents appears as interesting, too. The monthly minimum needed to cover basic living necessities of one household is estimated at YuD 21.702⁸ in the poll, while the sum that

⁸ With regard to a statistical indicator of minimum needs of an average household in Serbia measured on the basis of a YuD 10.930 consumer's basket in April 2002, there is a significant gap between the quantification of respondents' opinions on minimum amount needed by an average household and the statistical indicator. That indicator, however, cannot be accepted as the only relevant one since the value of the basket is increasingly covered with regular monthly income (from main and additional activities) that account for 2/3 of total household income.

would provide household members with a normal life is approximated at YuD 32.463.

In last year's poll we identified two categories of respondents that were conditionally called "losers" and "gainers" in the process of transition. Therefore, it will be interesting to see whether their opinions changed now, given the one-year experience of the transition, and what are their expectations with regard to the evaluation of their own situation in the forthcoming months (chart 1). The number of losers, i.e. of those whose economic situation worsened, decreased from the previous 40% to 34%, which is a good indicator, but at the same time, the number of gainers, i.e. of those who experienced improvement, also dropped from the previous 10.2% to 9.1%. Accordingly, the margin of 57.1% refers to the portion of respondents who assessed their position as unchanged.

Chart 1 – Gainers and Losers

July 2001

Gainers	10.2%
Losers	40.9%
No change	48.9%

May 2002

Gainers	9%
Losers	34%
No change	57%

Source: G17 Institute's Poll On The Population's Income And Opinions

According to the opinion of respondents, deterioration of their individual economic situation between the two periods under consideration resulted from the policy of the present Government (9%), and from the policy of both present authorities and the former regime (12%). The decrease of significance of the policy of the former regime assessed as a cause for deterioration of their individual economic situation, from 11.9% in the last year's poll to 3.4%, is probably compensated by the joint impact of the present authorities and the former regime. Chart 2 generally shows that the policy pursued by the present Government, as well as the past heritage, as the major reasons for the deterioration of the position of losers is considered less significant; but at the same time, joint impact of

these two factors is understood as being most responsible for such a situation.

Chart 2 – Losers, Causes Of Deterioration Of Economic Position

July 2001

Present authorities and former regime	6.7%
Former regime	11.9%
Present Government's policy	15.1%
I am not managing	3.3%
Other reasons	3.9%

May 2002

Present authorities and former regime	12.0%
Former regime	3.4 %
Present Government's policy	9.0 %
I am not managing	2.3 %
Other reasons	7.1 %

Source: G17 Institute's Poll On The Population's Income And Opinions

Comparing opinions on the real change of the economic situation in the previous months and expectations of possible changes in the upcoming period (Table 8), we come to an almost equal number of respondents who expect their economic situation to deteriorate (25%) and to improve (26%). On the other hand, almost a half of the remaining respondents (49%) expect no changes. In the previous poll, 20% of respondents expected deterioration, 40% expected improvement, and 40% expected no change. Accordingly, we may conclude that a considerable portion of respondents who expected improvements last year now see no changes in their economic situation in the near future.

It is also important to compare the characteristics of the present gainers and losers, and to see whether their structure has changed. Gainers are still younger, on average; they are more educated and most of them are employed in the private sector (Table 9). It is interesting that the age of gainers is decreasing, while the age of losers is growing; there are fewer experts among losers, which correlates with the lower average number of years spent in school among them. On the other hand, the share of gainers who live in urban areas dropped, at the same time as the number of losers in the population of such locations increased. The average monthly income in real terms of both losers and gainers increased by

almost the same percentage, i.e. by 58% and 57% respectively. Despite real growth of income registered in the previous one-year period, it is interesting that over half of the respondents assess their economic position as unchanged.

Table 8 – Transition Matrix, May 2002

Changes in economic situation over the last six months	Expected change of one's own economic situation over the next six months			
	Worse	Same	Better	Total
Worse	53	3	13	100
The same	11	62	27	100
Better	8	25	67	100
Total	25	49	26	100

Source: G17 Institute's Poll On The Population's Income And Opinions

Table 9 – Main Characteristics of Losers and Gainers

	July 2001		May 2002	
	Losers	Gainers	Losers	Gainers
Average age (in years)	47	44	49	42
Men (%)	47	56	46	52
Works in the private sector (%)	32	35	11	22
Average number of years of education	10.9	12.1	10.6	12.1
Works as an expert (%)	5.7	10.4	4.5	9.9
Urban residence (%)	54	61	55	55
Average monthly income per	4,074	6,289	5,919	9,042

capita (in YuD)				
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Source: G17 Institute's Poll On The Population's Income And Opinions

2.2 Opinions About Privatization

For monitoring changes in the welfare of individuals and of the economy as a whole in the process of transition, besides opinions on respondents' individual economic situations, it is important to consider opinions of employees regarding ownership transformation in companies where they are employed. In the polled sample, 36.5% of respondents work in enterprises that have undergone the process of privatization. These largely concern companies in Central Serbia (43.8%) and companies that employ between 1,000 and 2,000 employees (50.3%), and even over 2,000 (44.1%). With regard to the ownership structure of companies in which respondents work, these are mainly socially-owned companies and companies in mixed (private and social) ownership. The sample also comprised 29% of respondents who work in socially-owned enterprises that started the privatization process.

It is significant to analyze the opinions of workers on the changes of ownership in their companies in the several upcoming years. As the question addressed the period of the following three years, respondents' answers are not that encouraging. Namely, only 42.8% of all respondents expect the change of ownership in companies in which they work. It is also interesting to see opinions on this matter of the employed in the socially-owned sector. Employees in enterprises with major social ownership in 52.4% cases believe their companies will be privatized, while those employed in purely socially-owned companies expect privatization of their companies to be much slower, and only 41% expect change in ownership.

Chart 3 – Expected Changes Of Ownership In Enterprises In The Next Three Years

- Men
- Women
- Belgrade
- Central Serbia
- Vojvodina
- Major social ownership
- Socially-owned company
 - To be privatized

- To remain unchanged

Source: G17 Institute's Poll On The Population's Income And Opinions

The fact that less than a half of respondents expect their companies to be privatized in the next three years is not optimistic. Such opinions concerning change in the ownership of enterprises in which respondents work is probably the result of slowness in the privatization process in Serbia in the period preceding the poll.

2.3 Evaluation Of Respondents' Professional Skills

In percentage terms, employees in the socially-owned sector mostly believe that their professional skills are sufficient for daily performance of their job (Chart 4). This may result from the fact that the majority of highly educated workers are employed in public and socially-owned enterprises. Respondents who work in mixed enterprises and those who run their own companies in 37.1% and 40.4% of cases, respectively, believe they have good professional skills which need to be further improved. Also, the self-employed in 12.3% of cases fear that their present professional skills are outdated, probably due to fear of competition; this also applies to those who run their private unregistered businesses, due to their fear of the authorities and the drop in demand for that kind of skill. Employees in mixed enterprises are least concerned for the quality of their professional skills (1.7%).

Chart 4 – Evaluation of respondents' own professional skills

- Men
- Women
- Belgrade
- Central Serbia
- Vojvodina
- Major social ownership
- Mixed private and social ownership
- Socially-owned companies
- Own company / firm
- Own private activity
 - Good enough for present position
 - Good, but need improvement

- Outdated

Source: G17 Institute's Poll On The Population's Income And Opinions

2.4 Gradation Of The Most Frequent Problems Of Respondents And Assessment Of The Quality Of Services In Health Care And Education

The general position of respondents concerning the quality of health care services and the speed and availability of health services is very unfavorable (Chart 5). Ranking them between 1 and 5, 26.1% of respondents assessed the quality of health care services with the worst grade, i.e. 1, 24.7% with 2, and 27% with 3. The rest assessed the quality of health care services with the grade 4 in 11.8% of cases and with 5 in 5.1% of cases, while a portion of the respondents (5.4%) gave no answer. An especially negative attitude toward the quality of health care services is registered among pensioners and respondents with low degree of education, farmers, the unemployed and homemakers, i.e. population with the lowest incomes. These results only confirm huge problems that are present in the health care system caused by poor equipment in hospitals, poor supply of medicines in the state pharmacies and lack of money for treatment in the private sector⁹ among the poorest. The most vulnerable categories of the population and the elderly are the most frequent patients, according to medical statistics.

Similar problems are present in the area of education. It was therefore interesting to analyze respondents' opinions on the quality of teaching in schools and the state, and the existence of necessary equipment. The majority of respondents have no opinion on the quality of teaching (33.3%) and on equipment in schools (31%). On the other hand, as far as grading is concerned, the majority of respondents evaluated both the quality of teaching (27.2%) and school equipment (21.7%) with the grade 3. All categories of respondents assessed the situation in these two areas similarly. It is also interesting to see how students and pupils evaluated these areas. In the majority of cases, the average given grade is 3, and a significantly lower percentage of pupils and students, compared to all respondents, left these questions without an answer. In the analysis of this information, we should keep in mind that it is especially hard to maintain consistent quality of teaching at the faculties for medical and technical sciences and in high schools which require special equipment and agents for practical teaching. It

⁹ According to the poll, 27.9% of respondents with an average income that is lower than the estimated average in all 1,512 households use health services of the private sector.

is also important to mention the need for modernization of teaching, from primary to university education, with the purchase of computer equipment in schools and universities, whereby both equipment purchase and training require time and substantial assets.

Chart 5 – Assessment Of The Quality Of Services In The Health Care System And Education (all respondents = 100)

Grades (1 = worse, 5 = excellent, 7 = does not know)

- quality of health care services
- quality of education
- speed and availability of health care services
- school equipment

Source: G17 Institute's Poll On The Population's Income And Opinions

In order to examine the situation in the family and the personal contentment of individual respondents, we singled out a group of problems that are caused by insufficient income, job insecurity, illness, bad housing conditions, inability to provide education, lack of prospects, etc. These problems were offered to respondents for evaluation. Priority was given to the problems caused by a bad financial situation and weak health. The possibility of losing one's job is considered a problem, particularly by respondents between 40 and 49 years of age (40.3%) and those employed in the non-agricultural sector (41.6%). This problem is assessed by two extreme grades. On the one hand, 39.4% of respondents evaluate this problem with a grade of the lowest intensity, while, on the other hand, 27.8% of respondents consider it as very serious. 44.4% of the unemployed assessed this problem with grade 1, while 28.2% of them evaluated it with the grade of the highest intensity, which can be explained either by the possibility to find a new job easily after losing present employment, or by their passive attitude toward the possibility of losing a job because they have been seeking employment for a long time¹⁰ while working as moonlighters in the informal sector. The problem of a lack of personal motivation is evaluated with the highest grade by 32.9% of respondents. This problem is considered serious by respondents of all age groups. A worrisome result is that the youth between 18 and 29 years of age in as much as 41% of cases

¹⁰ The average time of seeking employment, according to the poll, is estimated at 3.8 years. In the group of respondents who were seeking employment in the closed interval of one year, the average waiting time was 7.5 months.

evaluated with the highest grade the problem of a lack of prospects, while, among the unemployed, this problem was in more cases ranked first (53%), ahead of the problem of losing a job. This suggests that the youth are not satisfied with jobs they get. The problems of bad housing conditions and inability to provide better education to their children are not perceived as very important. In both cases, over 40% of respondents evaluated these problems with the lowest grade.

Respondents consider the unemployed, mothers with children and the elderly and sick as the most vulnerable social groups. It is interesting that ethnic Albanians, the Roma population and other minorities are not seen as highly vulnerable social categories. The grade of lowest intensity was given to these three categories of populations in 60.8%, 28.3% and 36% of cases, respectively. Also, a high percentage of respondents has no attitude with regard to vulnerability of minorities. The vulnerability of refugees and displaced persons was evaluated with the highest grade by 29.3% respondents, or by 25.2% with the grade 3. Such results are caused by gradual disappearance of this category of the population.

Macroeconomic Theme II

**PRIMARY PRODUCTION AND PROCESSING OF TOBACCO IN
SERBIA – PRESENT SITUATION AND PROSPECTS**

Primary Production In The Agricultural Sector In Serbia

Serbia is still a mainly agricultural country. Agriculture has a very large share of about 1/4 in the Serbian GDP. With regard to the food processing industry and the manufacture of beverages, tobacco and fodder, it can be safely assumed that the entire agricultural sector constitutes one third of the Serbian GDP. This largely exceeds the share of this sector registered in other countries in transition.

Food production has a significant share in foreign trade of our country, also, and sections comprising food and tobacco and beverages (sections 0 and 1 of the International Trade Classification) in 2001 accounted for 16% of exports and about 10% of imports. Over the previous years, the share of these sections sometimes amounted to as much as 1/5. However, presently we are more food importers, i.e. the coverage of imports by exports in the agricultural sector has been 77.1% in the first nine months of this year (which is satisfactory coverage given all the circumstances).

One-fifth of the population in Serbia is an agricultural population, which indicates the significance of agriculture even from a social prospective. Furthermore, about 10% of total employment in 1999 was associated with the agricultural sector, whereby the food industry was employing more workers than any other industry.

Primary agricultural production in Serbia today is in an unenviable and, to put it mildly, paradoxical situation. All relative indicators of agricultural production and cattle breeding show negative trends. However, with regard to the region of Eastern Europe, excluding successful candidate countries for membership in the EU (Poland, Hungary, the Czech Republic), and Romania, which has full EU support in the implementation of reforms, Yugoslavia, i.e. Serbia in particular, is still one of the leaders in primary agricultural production in the Western Balkans. In view of livestock and field crops and plants as well, we are right next to the mentioned countries, while as far as neighboring countries are concerned, our main competitor is

Bulgaria. Our country, however, is the most successful in fruit growing (“the worst” position in this area is a fourth place in the production of cherry and grapes in 2001). Hence, fruit and vegetable producers are our most successful exporters in the agricultural sector (an increase in exports in the first nine months of this year) and are the only one who achieve a surplus in trade with foreign countries in this sector.

Having coped successfully with all difficulties in the past, the agricultural sector turned out to be the most vital part of our economy, but real challenges are yet to come. The situation in which our agricultural sector has found itself today comes as a result of the transition and the initiated reforms. Financial support by the state is rather modest and is unlikely to increase in the near future, while production for the needs of the market and market domination will be growing. The agricultural sector in Serbia needs specialization, defragmentation of estates and reorientation from extensive and natural to market production of goods. However, this concerns a process that is achievable in the short run and that, given the significance of this sector for our economy and population, could absorb shocks arising from the process of restructuring of our economy (unemployed labor). That is why each problem and each field within the agricultural sector requires due attention.

Problems Encountered In Primary Production Of Tobacco In Serbia

Primary production of tobacco shares the faith of primary agricultural production in Serbia; the manufacture of tobacco is in a very hard situation. For starters, in order to avoid confusion, we must be aware of a distinction between primary production of tobacco and the processing of raw tobacco, which is the main raw materials for the manufacture of cigarettes, and the manufacture of cigarettes itself. It should be also borne in mind that the present situation in the area of production of raw tobacco in Serbia is not only an economic issue, but also a political one.

Cost price calculation by ha in the EU		Virginia (crops on the basis of 2,500 kg/ha)	Burley (crops on the basis of 3,500 kg/ha)
Expenditure	Processing (cultivation)	EUR 2,000	EUR 2,000
	Harvest and drying	EUR 5,000	EUR 5,500
	Total expenditure	EUR 7,000	EUR 7,500

Income	Selling price	EUR 2,000	EUR 1,260
	Premium	EUR 7,450	EUR 8,330
	Total income	EUR 9, 450	EUR 9,590
Profit by ha		EUR 2,450	EUR 2,090

Cost price calculation by ha in the EU		Virginia (crops on the basis of 2,500 kg/ha)	Burley (crops on the basis of 3,500 kg/ha)
Expenditure	Processing (cultivation)	0.80 EUR/kg	0.57 EUR/kg
	Harvest and drying	2.00 EUR/kg	1.57 EUR/kg
	Total expenditure	2.80 EUR/kg	2.15 EUR/kg
Income	Selling price	0.80 EUR/kg	0.36 EUR/kg
	Premium	2.98 EUR/kg	2.32 EUR/kg
	Total income	3.78 EUR/kg	2.63 EUR/kg
Profit by kg		0.98 EUR/kg	0.53 EUR/kg

As far as the process of raw tobacco production in Serbia is concerned, the problem is not that it is more expensive in our country than abroad, since we have cheap labor; moreover, the most vulnerable categories of the population, including the elderly, are mainly involved in the production of tobacco. The soil is of a good quality and all other natural conditions for tobacco growing exist; we have all necessary processing equipment and good human resources. The problem is not in the quality and sorts of tobacco either, as they are adjusted to market demands. The main problem refers to distribution, i.e. the sale of tobacco.

It is well-known that agricultural production worldwide, and in particular in developed countries, enjoys a very high degree of protection and financial support in order to provide good supply for the domestic market which does not depend on imports, as well as to provide competitive exports. Primary production of tobacco in Serbia does not have special protection and support by the state, as is the case of the European Union and many neighboring countries; this fact raises the question of competitiveness of products. Support for primary production of tobacco in the EU is regulated in a similar

way as for all other agricultural products within the system of Common Agricultural Policy, involving very high direct payments to producers which aim to compensate the difference between the selling price and the production cost (the former highly exceeds the latter), and to ensure a certain level of profit. It is such support that ensures both good supply of the EU market and competitive exports.

Primary production of tobacco in our country is not only insufficiently supported financially by the state, but also the model of premiums for raw tobacco production is not regulated in a way that stimulates the production of quality tobacco for the market and capital investments in production. The prices of inputs necessary for tobacco production (fuel, electricity, spare parts, agents and means for chemical protection, etc.) increased by several hundred percent over the last two years, while the redemption price of fermented tobacco by cigarette factories remained the same. Producers cannot rely on a long-term strategy or on special business conditions that will enable production planning; moreover, the proposal of the Tobacco Law does not pay due attention to this issue, but is more occupied with traders. As for outside market protection, it hardly exists. A tariff rate of 10% on the import of raw or unprocessed tobacco, coupled with an average unweighted tariff rate on tobacco and tobacco substitutes of 14.75%, and the existing level of a variable levy of 10 YuD/kg provides only a very high level of competitiveness for foreign producers on the domestic market, which is heavily made use of by domestic cigarette producers in avoiding domestic growers. For example, while tariff rates in our country range between 10 and 30%, Slovenia and the Czech Republic, as more developed countries and members of the World Trade Organization, exercises rates of 0.45% for tobacco and tobacco substitute products, with the average unweighted tariff rate of 6.5% in Slovenia (whereby Slovenia has no domestic production of tobacco at all), i.e. of 3.4-55%, with an average unweighted tariff rate of 18.8% in the Czech Republic.

Redemption Prices Of Raw Tobacco, Crops 2001 For Virginia and Burley

Sort of tobacco – Virginia			
Class	Price of raw tobacco (in YuD)	Premium (in YuD)	Redemption price (in YuD)
1	113	24	137
2	98	24	122
3	79	24	103
4	50	24	74
5	25	24	49

6	16	24	40
Moldy	6	24	30

Sort of tobacco - Burley			
Class	Price of raw tobacco (in YuD)	Premium (in YuD)	Redemption price (in YuD)
1	66	24	90
2	53	24	77
3	42	24	66
4	32	24	56
5	14	24	38
6	8	24	32
Moldy	5	24	29

The problems encountered by domestic tobacco producers do not refer to technology, although it is capital, or to redundant labor. For all these years, they have financed their own production, which, coupled with the problem of sale and foreign competition, could not contribute to any other results than depleted resources. Finally, they have found themselves left to their own devices and out in the open, standing between cigarette producers and the state.

Social Aspect Of The Problem

Someone might say that such a situation is all right, in line with economic reforms and the process of transition; the mentioned process of restructuring and specialization in agricultural production is underway. An impoverished country in the midst of the painful process of transition is not capable of supporting such versatile and diversified agricultural production, since it is cheaper and more rational to import certain products and to focus on the production of those which may be competitive. This generalized and theoretical position might stand if it were not referring to a very concrete problem that must, as such, have its solution which is in the interest of the impoverished economy of this country.

The opinion that primary production of tobacco in Serbia is not needed may well be acceptable, if this economic problem did not have its social aspect and time dimension, which, again, comes down to the economy; while, in the end, the economy comes down to pure mathematical calculation.

At present, the demand for raw and processed tobacco as raw materials for cigarette production largely exceed supply by domestic producers, rather because this production is not profitable than because available capacities and possibilities are insufficient. Disintegration of the SFRY and the problem of Kosovo prompted changes in the structure of production of particular sorts of tobacco in Serbia. The production of oriental sorts of tobacco – i.e. “jaka” and “prilep”, which are mainly grown in Nisko-vranjanski basin and in Kosovo dropped drastically. In Serbia, i.e. Vojvodina, the main sorts are large leafed tobaccos, ”Virginia” and “Burley”. The production of “Virginia” considerably increased over the last five years. Owing to capital investments of our producers, production in former republics has been replaced. The production of “Virginia” is very capital-intensive (due to artificial drying in driers), but at the same time, it is highly profitable, owing to the great demand on the market. On the other hand, “Burley” is dried naturally, and its production is performed by the socially most vulnerable categories of the population. The production of “Burley” decreased over the years and is expected to constitute 35% in the total yield in 2002, while the production of “Virginia” has been increasing and is projected to amount to 52% in the structure of the total yield for 2002. It should be borne in mind that increase in the production of “Virginia” is the result of the application of stricter agro-technical measures and favorable natural conditions in the last two years, and not of capital investments in equipment (driers). The production of semi-oriental tobacco “otlje”, which is also mainly grown in the south of Serbia, has registered a mild upward trend as of 1999 and is expected to have equal share in the total yield for 2002, as in 2001 - i.e. 8%.

Overview Of Raw Tobacco Production In Serbia By Sorts In The Period 1999 – 2002

Year	Virginia	Share in %	Burley	Share in %	Jaka	Share in %	Prilep	Share in %	Otlja	Share in %	Total
1999											
2000											
2001											
2002											

*Figures refer to ,000 kg

The table above shows that total production of raw tobacco in Serbia has an upward trend. It is certainly necessary to set up incentives to ensure increased production of oriental and semi-oriental sorts of tobacco whose

production has dropped rather for political and territorial, than for actual market-related reasons and which could find their place on the market.

*Total Tobacco Production In The Period 1999 – 2002, in ,000 kg
(with separated trends in the production of “Virginia” and “Burley”*

- *Total*
- *Virginia*
- *Burley*

Model of Premiums

The most intensive criticism expressed by tobacco growers thus far refers to the existing model of premiums and support for tobacco growing in Serbia. In February 2002, growers proposed a strategy of incentives for tobacco growing until 2005. Key elements of that strategy were: how to ensure incentives for tobacco growing and for its market-oriented restructuring; how to provide means for capital investments for the production of “Virginia” (driers, accompanying mechanization, modern agro-technical measures, etc.); they proposed a model of premiums based on the amount, i.e. kilograms, according to different sorts, types and classes of tobacco. This strategy, together with the model of premiums was accepted then, and was applied until 2001, while premiums, in the amount of 24 YuD/kg were paid out from the budget. A downside of this model is that premiums were paid out linearly on the redemption price of tobacco, which means that the model did not stimulate quality, while the same premiums were paid for different classes of tobacco. Fees collected by charging YuD 1 for each packet of cigarettes were used for funding these premiums. However, in order to limit space for budgetary embezzlements, this model of premiums was revoked by an ordinance in 2001, while in 2002 a new model of premiums, based on land area, i.e. hectare cultivated, was introduced, and was explained as an incentive for increase in production. In contrast to what was expected, this model has not met expectations and has not had a stimulating effect on the quality and quantity of production. The biggest and highest quality producers have been punished in a way, since this model granted them the same premiums as less successful producers. Also, as we mentioned before, in the course of 2002, the prices of inputs have increased considerably and thus redemption prices of raw tobacco have grown by 25% on average, while the prices of fermented tobacco have not be changed by cigarette producers for two years, since it is more profitable for them to import cheaper tobacco.

Because of the described situation, the stocks of tobacco are piling up, while it has been announced that projected yields for 2002 will not be accomplished. Therefore the projected premiums of YuD 480 million will not be made use of, while the remaining portion of money will not be given to producers as incentive or support for next year. Out of 13 factories that deal with tobacco processing in Serbia, due to business unprofitability, several have already undergone the process of liquidation. The loss of interest of both contractors (farmers) and processing factories in this culture is understandable as their costs exceed income, with modest possibilities for financial planning for the forthcoming years. Tobacco imports have been liberalized and domestic growers cannot compete with foreign ones since, owing to low premiums, they are not able to offer prices that are more favorable than market prices.

There are two other significant facts: tobacco growing is performed by socially vulnerable segments of the population and by elderly households as additional activity; the privatization process in the tobacco industry is forthcoming. In 2002, tobacco growing involved 14,128 producers. Given the previously advanced information, announcements by farmers and factories that they will abandon tobacco growing - i.e. not to contract jobs for 2003 with such redemption prices - are justified. The question is what is going to happen to people who live on tobacco growing, whether they are going to live on social benefits, instead of performing their current activity. It is unlikely that these people can reorient toward the production of other cultures (e.g. sugar beat), since they cultivate small areas of land (an average area of 30 ha is cultivated by a single Burley grower); in tobacco growing, one worker can cultivate 1ha of land in one year, and that is why this kind of production is convenient for such households.

If such a level of support and market protection remains, given the forthcoming privatization of the tobacco industry, announcements by growers that they will abandon their activities may well come true, although this is not the solution. The process of defragmentation of estates in agriculture will not be completed in the short run, while the state is not strong enough to provide financial support to an increasingly growing number of the unemployed. A steady income source through a secure job is certainly the best solution for these categories of the population, which, in the case of tobacco growing, can be only beneficial to the state, and in no way detrimental.

Certain Parameters Of The Production Of “Virginia” And “Burley” For The Period 1999-2001

Period 1999 - 2001	Virginia	Burley
Average number of contractors	1.164	12.240
Average yield by a contractor (kg)	2.711	417
Average area by contractors (ha)	2.15	0.30

Proposed Solutions

Survival and certain progress in the primary production of tobacco requires adequate support, legal regulations and protection of the domestic market for at least one year in order to strengthen domestic production and thus enable it to sustain foreign competition.

It is also necessary to restore a kilogram-based model of premiums and to establish different premiums for different types, sorts and classes of tobacco. This would stimulate growth of output, at the same time as increasing quality, as the highest premiums would be given to the best classes of tobacco (i.e. the first, second, third and fourth classes regularly used in the production of cigarettes). In order to ensure competitiveness of our tobacco, it is necessary to provide redemption prices at least at the EU level, i.e. 0.8 cents for “Virginia” and 0.36 cents for “Burley”, while the average premium would be much lower than in the EU (1.2 EUR/kg for “Virginia” relative to 2.98 EUR/kg in the EU, and 1 EUR/kg for “Burley” relative to 2.32 EUR/kg in the EU), i.e. only 40% and 43% compared to premiums per one kilogram granted in the EU. In order to encourage the growing of “otlja” and oriental sorts of tobacco, average premiums should be set at 1.2 and 1.5 EUR/kg respectively.

The Projected Level Of Premiums Necessary For Reaching Projected Output In 2003

Sort of tobacco	Projected output for 2003, in ,000 kg	Average premium in EUR/kg	Total amount of premiums in YuD thousands
Virginia	7.000	1.2	512.000
Burley	7.000	1	427.000
Otlja	1.000	1.2	73.000
Oriental	1.000	1.5	91.500
Total	16.000	-	1.104.100

Yet, these premiums would be sufficient to realize an average output of 16,000 tons of tobacco in 2003 and to ensure capital investments for the production of “Virginia” that are necessary for increased output. Very importantly, this increase in output would provide security to existing growers, at the same time as increasing their number, especially with regard to the socially vulnerable segments of the population. For example, a 30-40% growth in production of burley would result in an increase in the number of growers coming from the most vulnerable layers by 50-60%. Also, the new Tobacco Law should pay more attention to growers and establish the obligation of domestic cigarette producers to purchase a minimum of 60% of their annual output of cigarettes (since 1 ton of cigarettes is equal to 1 ton of processed tobacco) from domestic growers. Thus, domestic growers would be protected in the forthcoming privatization process.

In order to realize this program, it is necessary to provide financial resources and market protection for at least one year. For the production of the projected 16,000 tons of tobacco in 2003, it is necessary to provide about YuD 1.1 billion for premiums. This amount would be provided by a 10% increase in the excise duty charged on each packet of cigarettes. Funds which are collected thus will be distributed to producers and the state will be able to take over responsibility for direct distribution of funds to growers; but they also need to be certified by the Government for the performance of this activity. Thus, manipulations and smuggling would be prevented. The realization of this program requires market protection for at least one year, which could be achieved by increased variable levies from the present 10 YuD/kg to 1 EUR/kg. For the sake of security of the variable levy collection, it should be organized through customs registration. This should be a long-term measure as we are not WTO members yet, and moreover, other countries have much stricter protection of their markets.

Everything advanced so far implies that this is a self-financing model which places no burden on the state. At the same time, it improves primary production of tobacco and may increase employment of the most vulnerable categories of the population that will no longer burden the state, while the state itself will achieve certain income through the collection of a variable levy, not to mention overall advantages resulting from healthy business activity.

Editor	Ph.D. Mirosinka Dinkic
Prices	Kosovka Ognjenovic, M.S.
Wages and pensions	Jelena Momcilovic Iva Jovanovic
Labor market	Jelena Momcilovic
Production and services	Ph.D. Mirosinka Dinkic Iva Jovanovic
Foreign trade	Aleksandra Brankovic
Monetary and Fiscal Policy	Miroslav Zdravkovic, M.S.
Macroeconomic Review	

**INTENSIFYING REAL ACTIVITIES IN THE ECONOMY, FURTHER GROWTH
OF EXPORTS AND ADJUSTMENT OF DOMESTIC CONSUMPTION TO THE
LEVEL OF WORK PRODUCTIVITY**

Prices

Retail prices in Serbia without Kosovo and Metohija in October 2002 were up by 1.5% month-on-month. Retail prices increased by 15.2% year-to-year, or by 11.6% compared to December 2001. This growth mainly resulted from the increase in the price of seasonal fruits and vegetables in the group comprising agricultural products and in the price of postal services and housing public utilities in the group comprising services.

Chart

Growth rates of industrial producer prices, prices of agricultural products and prices of hotel and restaurant services (average 2001 = 100)

- *industrial producer prices*
- *agricultural producer prices*
- *hotel and restaurant services*

NOTE: Agricultural producer prices are not available for September

Although indirectly having caused growth in the price of transportation, higher gasoline price is not supposed to have a significant impact on the dynamics of retail prices in November. The growth in these prices is likely to affect retail prices index by 0.5 – 1 index points.

The prices of agricultural products in July and August displayed a negative growth rate, but in September, due to unsteady supply of seasonal products, they

registered faster growth, which continued in October. The prices of industrial products in the third quarter grew at a mild pace, which continued at the beginning of this quarter. The average monthly growth by 0.4% in the prices of industrial products resulted mainly from increase in the price of alcoholic and non-alcoholic beverages.

The price of services in the course of 2000 grew at a much slower pace than the price of goods because the price of the two most significant types of services – public utilities and transport and postal services – were under control for a long time. In 2001, the price of services increased faster than the price of goods, and this is the reason why, in spite of their considerably lower importance in the total index of prices, the price of goods rose by 20.5 percentage points higher than the prices of goods, which were up by 87.5% (the 2001 average relative to the 2000 average). In the basket of goods for monitoring retail prices, according to present weights, the price of services accounted for 21%, while the rest refers to the price of goods. Last year's faster growth in the price of services has continued over this year, and thus, as of the beginning of 2002, the price of services has been growing at an average monthly rate of 2%, while the growth rate in the price of goods has been 0.8%.

It is therefore interesting to compare the dynamics of prices of two main producers (of industrial and agricultural products) and the growth in the price of a selected group of services – i.e. hotel and restaurant services (chart 1). There is a high positive correlation between industrial producer prices and the price of hotel and restaurant services, and the average wages paid out in these two activities. In all three selected activities – agriculture, manufacturing and hotels and restaurants – the average wage was lower by 10%, 16% and 29% respectively from the average paid out at the level of the Republic. The price of hotel and restaurant services has cumulated considerable growth since the beginning of this year; however, price growth apparently had not affected only the growth in wages in this industry. On the other hand, manufacturing has registered a typically high degree of variability regarding average wages.

The beginning of the last quarter of 2002 recorded an average monthly growth in consumer prices by 1.3%. The growth in prices has been registered in all groups of products and services that comprise consumer prices, whereby the most significant growth was displayed in the groups comprising clothing and footwear, and transport equipment and services. Consumer prices in October were up by 10.3% relative to December 2001, or by 11.4% year-to-year. The highest growth in consumer prices was cumulated in the price of housing, which is up by 68.1% compared to last year's average, while the smallest growth over the same period refers to the price of hygiene and health care (by 7.4%) and food prices (by 8.4%). Nutrition costs have shown the slowest dynamics of growth as of the beginning of this year: in October they reached the level registered in December 2001, while, with regard to October 2001, food prices were down by 0.6%.

CHART

Purchasing power of pensioners

- Pension, in YuD

- *Average nominal pension (left scale)*
- *Ratio of the average pension to net wage (right scale)*
- *Ratio of the consumer basket per household member to the average pension in % (right scale)*

Wages and Pensions

The average gross wage paid out in the Republic of Serbia without Kosovo and Metohija in September 2002 was YuD 13,921, while the average net wage was YuD 9,674. The nominal net wage in September 2002 was down by 2.7% month-on-month, but relative to the same month of the previous year, it rose by 40.2%. The growth of the consumer price index by 1.3% registered in September month-on-month caused a real drop of the average net wage by 3.96%. However, the average net wage increased by 24.5% in real terms year-to-year, or by 5% relative to December 2001. This indicates that the trends of real wages in Serbia have been gradually adjusting to trends in the productivity of work, which is one of the factors necessary to keep macroeconomic stability in the forthcoming period.

The consumer basket for a four-member family in September 2002 was valued at YuD 11,665.5, which is down by 0.6% month-on-month, and thus, the ratio of the value of the consumer basket to the nominal net wage remained unchanged relative to the previous month, amounting to 1.2, while, compared to the same month of the previous year, it is considerably lower (1.7).

The average net wage in the economy in September 2002 was YuD 9,198, while in the non-economic sector it was slightly higher, amounting to YuD 11,099. In real terms; the net wage in the economy in September was down by 2.74%, while in the non-economic sector it dropped by 6.96%.

The average pension paid out by the Old Age Pension and Disability Insurance Fund of Employees in October 2002 was YuD 6,770, and included the payment of the second portion of the adjusted pension for July and the first portion of the August pension. The average pension paid out in October was nominally up by 2.1% month-on-month, or by 0.8% in real terms.

The ratio of the statistical consumer basket per household member to the average pension paid out in October was 0.44. Compared to the previous three months, this ratio has not changed considerably, which means that real purchasing power of pensioners is being sustained.

CHART

Indices of real growth of wages in the Republic of Serbia, January 2002 – September 2002

- *Chain indices*
- *Base indices*

A trend of a dynamic drop in the number of employees in the socially-owned sector was registered in September 2002 (down by 9.1% month-on-month, or by 15.1% year-to-year). The number of employees in the private sector increased by 10% in the period January – September 2002 compared to the same period of the last year, while in small-sized enterprises employment rose by 12%.

According to data of the Republic Bureau for the Labor market, unemployment increased considerably over the last two months. In the period January – September 2002, registered unemployment reached the average figure of 823,700 persons per month, which is up by 58,800 persons year-to-year. However, the Bureau also stressed that a total of 279,200 persons initiated employment over the same period, of which 177,300 were individuals registered at the Bureau, while 101,900 relates to the fluctuation of labor. When the previously advanced digits are compared, it turns out that the number of persons registered at the Bureau who initiated employment in the period January – September 2002 exceeds the number of those registered as unemployed between December 2001 and September 2002 (by 60,100). The question arises as to what was the reason for such an increase in the number of registered unemployed persons in the previous months, in particular in the last 2–3 months, that was recorded at the Republic Bureau for the Labor Market. This implies that it is necessary to reconsider the issue of registration of unemployment and to set precise criteria for the status of “unemployment” in order to establish the real number of the unemployed in Serbia.

The total number of unemployment benefits recipients, according to the latest data from August 2002, is 74,935, which is up by 12.84% relative to the previous month, or by 34.83% year-to-year. The number of recipients on the basis of lay-offs increased by 36% in August 2002 compared to the same month last year, and accounts for 54% of the total number of unemployment benefit recipients. The recipients on the basis of bankruptcy in August 2002 increased by 70.5% year-to-year and accounted for 33% in the total number of recipients. In the period January – August 2002, the number of recipients grew by 27.66% on the average compared to the same period last year: by 27.72% on the basis of layoff and by 40.66% on the basis of bankruptcy. In August 2001, the ratio of unemployment benefit recipients to the unemployed was 1:14, while in August 2002 it dropped to 1:12. This indicates an increasing number of those entitled to unemployment benefits among the unemployed. In view of the realization of the restructuring process, this can be taken as a positive trend.

Production and Services

According to preliminary data, industrial output at the level of the Federal Republic of Yugoslavia in September 2002 increased by 7.0% month-to-month and by 4.7% year-to-year. In the period January – September 2002, industrial production was up 1.1% relative to the same period last year. Output in Montenegro rose by 15.0% and in Serbia without Kosovo and Metohija by 6.5%.

With regard to the first nine months of 2002, production in Montenegro dropped by 2.7%, while in Serbia without Kosovo and Metohija, it increased by 1.3% - i.e. by 1.7% in Central Serbia and by 0.5% in Vojvodina.

As far as particular sectors are concerned, output in manufacturing, which accounts for about 75% of Serbian industrial production, increased by 9.9% year-to-year. The highest growth was registered in the manufacture of rubber and plastic products (42.8%), the manufacture of leather and leather products (30.1%), the manufacture of transport equipment (22.7%), the manufacture of wood and wood products (20.5%), the manufacture of textile and textile products and other processing (by 15.1% each), the manufacture of radio, TV and communications equipment (14.1%), the manufacture of food products (10.7%), the manufacture of chemical products and fibers (9.2%) the manufacture of machinery and appliances (9.0%) and the manufacture of tobacco products (7.5%).

The sectors of energy, gas and water supply and mining and quarrying registered a drop of 2.3% and 7.1% respectively in September.

The value of completed construction works in September increased by 20.6% in real terms month-on-month, while in the period January – September 2002 the real value of completed construction works in Serbia, without Kosovo and Metohija was up by as much as 52.4%.

Retail trade turnover in the socially-owned sector in Serbia, without Kosovo and Metohija in September 2002, in current prices, remained at the level registered in August, while in constant prices it was down by 0.8%. Enterprises foresee increases in turnover in October by 5.0%. Retail trade stocks at the end of September 2002 increased by 3.0% relative to the end of August.

Wholesale turnover increased by 0.6% in current prices and by 4% in constant prices.

The trend of increased activities in all service industries was registered in the previous months of 2002. The turnover in the hotel and restaurant industry grew by 2.4% in real terms in August 2002 relative to July, while in the period January – August it increased by 16.1% year-to-year. Turnover in tourism, measured by the number of tourist nights in August, was up by 4.8% month-to-month, while over the first eight months of 2002 it was lower by 1.0%, compared to the same period last year.

Air traffic also recorded dynamic growth, relative to the previous year. The number of passenger kilometers in August increased by 9.2%, compared to July, while, with regard to the first eight months of this year, it rose by 14.5% year-to-year. The number of realized ton-kilometers in August was up by 20.8% month-on-month.

The volume of road transport, in particular, passenger transport has been permanently increasing In the course of 2002.

The growth in industrial activity, and especially in construction had an apparently positive impact on the increase in the volume of transport services and in turnover in trade. On the other hand, achieved real growth in the population's wages also affected the increase in retail trade turnover, the volume of transport services and turnover in tourism and the hotel and restaurant industry.

Foreign Trade

CHART

Serbia's Foreign Trade – by destination of products

- reproduction goods
 - capital goods
 - consumer goods
 - reproduction goods
 - capital goods
 - consumer goods
- EXPORT**
- IMPORT**

US\$ million

According to preliminary data, Serbia's commodity exports in September were valued at US\$ 187 million, while commodity exports realized in the first nine months of 2002 were valued at nearly US\$ 1.5 billion. Commodity exports in September were nominally up by 14.6% year-to-year, while, with regard to the first nine months of 2002, exports increased by 19.2% compared to the same period last year.

Commodity imports in September were valued at US\$ 451 million, which is nominally up by 29.1% year-to-year, while commodity imports realized in the period January – September were valued at US\$ 3.9 billion, which is up by 25.7% compared to the same period last year.

With regard to the destination of products, all sections recorded an increase both in exports and in imports, compared to last year. The highest growth in the value of imports was registered in the section of capital goods – it was nominally up by 56% relative to the first nine months of the last year. The growth rate of imports of consumer goods is higher than the growth rate of imports of materials for reproduction, and hence, the share of materials for reproduction in the total imports dropped to under 2/3, while capital goods and consumer goods accounted for approximately 1/5 each. As far as Vojvodina is concerned, materials for reproduction account for as much as 3/4 of total imports, while in Central Serbia the imports of materials for reproduction amount to 56% only, displaying a downward trend, compared to last year. In this region, consumer goods account for much more of the total imports than in Vojvodina (over 20% of Central Serbia's commodity imports).

Reproduction materials dominate in the structure of Serbia's commodity exports, accounting for 55%. The share of consumer goods remains at the last year's level (36%), while the share of capital goods is reduced to 8%.

Viewed according to groups of states, the most important partners are developing countries, which account for 46% of realized commodity imports and 51% of realized commodity exports. Transition countries rank second, with 49% of realized exports and 43% of realized imports. On the part of exports the share of developed countries decreased, compared to last year (when one half of Serbia's commodity exports was directed to these countries), while the share of the countries in transition rose. Commodity imports show a reverse trend as the

countries in transition had a dominant share last year, while today imports to developing countries prevail.

Monetary and Fiscal Policy

After expansion in September, monetary policy in October was restrictive. Money supply (M1) in September increased by 10.3%, compared to modest 0.2% growth in October. Since cash money supply in September was up by 8.3%, while in October, it was down by 3.6%, its share decreased from 35.7% in August to 35.1% in September and 33.7% in October.

Foreign currency reserves slightly increased in October, reaching US\$ 2081.4 million at the end of the month.

Interest rates in Serbia were significantly lower in September month-to-month: active interest rates of banks dropped from 1.69% to 1.44% and passive interest rates from 0.29% to 0.18% at a monthly level. Compared to September 2001, active interest rates were lower by 53.5% and passive by 62.5%. The NBY discount rate remained unchanged.

According to the information released by the Payment and Settlement Bureau, the gross collection of public revenues in September dropped from YuD 44.4 billion in August to YuD 42 billion in September. However, gross collection of public revenues in September was nominally up by 42%, or by 22.5% in real terms year-to-year. As far as the period January – September is concerned, gross collection of public revenues increased nominally by 71.2% or by 41.4% in real terms in 2002, compared to last year. Such intensive growth in public revenue collection cleared the way for the announced set of tax relieves in order to stimulate business performance of enterprises and faster economic recovery. The effects of announced tax relieves and of reduction of the overall level of tax rates on economic activity will become apparent in three to six months, when positive financial effects are supposed to result in lower production costs, increased output and more intensive investment activity.

The revenues of social insurance organizations display higher growth rates both in the period January – September (29.6% in real terms) and in September (50.6%). This resulted in the increased share of these revenues in total revenues from 35.6% to 37.9% in the period January – September 2002, year-to-year.

CHART

Interest Rates In Serbia, Monthly Level, January 2001 – September 2002

1. NBY Discount Rate
2. Weighted Passive Interest Rate For FRY
3. Weighted Active Interest Rate For FRY
4. Interest Margin Of Commercial Banks

Department of European Studies
EU REVIEW

Editor

Tanja Mišćević, M.A.

EU Review

Ana Đorić, M.A.

Katarina Damnjanović, M.A.

Economic News

Dejan Gajić

News In The European Union - October

Rules on Production, Advertising and Sale of Tobacco Products

A new Directive that regulates the production, advertising and sale of tobacco products came into effect on October 1, 2002.

As of January 1, 2004, cigarettes that are traded and produced in the EU member states may contain up to 10mg of tar, 1mg of nicotine and 10mg of carbon monoxide per cigarette. This rule will also apply to cigarettes produced for export as of January 1, 2007. The Directive provides for what information must be put on labels, and precisely sets out (in percentages) what area of a packet these labels must cover. It allows for a certain period of time during which differences will be tolerated. Moreover, member states must obligate producers and importers of tobacco products to produce a list of ingredients and quantities by sort and by toxicological values by December 31 at the latest, which will enable the Commission to propose a common list of ingredients for production by September 31, 2004.

Finally, as of September 30, 2003, the packaging of tobacco products must not contain texts, indications, stamps and figurative signs or any printed information which imply that one tobacco product is less harmful than others.

Public Markets

A political agreement was reached on the Proposal of the instruction which is supposed to simplify and modernize the present legislation concerning the signing of contracts within public markets in the sectors of water supply, energy and transport (so-called Instruction on “the special sectors”).

Instruction on Mediation Activities in the Area of Insurance

After getting support from the Council, the Directive on mediation in the area of insurance is likely to be adopted in the nearest future; this directive will enable a wider selection for consumers and more efficient consumer protection, whereby mediators, such as insurance agents, banks and vehicle lessees, will be allowed to commercialize their services at the international level. According to the new solutions, all mediators will have to be registered in member states by origin and by other strict criteria. When it comes into effect in the late 2004, this Instruction, which is based on the Commission's proposal from September 2000, will replace the 1977 Instruction, thus becoming an exclusive community instrument that applies to natural persons and legal entities that sell insurance services to third persons.

New Rules Concerning Takeover Bids

On October 2, 2002, the European Commission presented its new proposal for a Directive that lays down common rules for takeover bids. The proposal sets out to offer European firms greater legal security for cross-border takeover bids in the interest of all concerned, including company employees, and to protect minority shareholders, where control of a company changes hands. The new proposal respects all principles regarding equal treatment of all holders of securities; all addressees of the bid must have sufficient time and information in order to be able to reach a properly informed decision on the bid; the board of the offered company must act in the interests of the company as a whole; false markets must not be created in the securities of the company that is up for sale, of the buyer company or of any other company concerned in the bid; the company that is up for sale must not be hindered in the conduct of its affairs for longer than is reasonable in a bid for its securities.

Education

On October 7, 2002 the European Commission presented a proposal for a directive on the entry and residence conditions for third-country nationals for the purposes of studying, vocational training or volunteer activity. This proposal complements initiatives already put forward on the entry of third-country nationals for the purposes of employment and family reunion. The forthcoming directive will also make it easier to host students from third countries under the future Erasmus World Program (cf. IP/02/1066 of 17

July 2002) and to allow third-country nationals to take part in programs such as Youth and Euromed Youth.

New Measures For Sustainable Fisheries in the Mediterranean

On October 9, 2002, the Commission proposed a series of ambitious measures specifically designed to ensure sustainability of fisheries in the Mediterranean and to establish the levels at which this issue will be regulated. Some responsibilities in the area of fisheries will be transferred to the national or local levels, while the Union will be in charge of setting common standards on conservation and environmental protection. Proposed measures encompass a concerted approach to declaring protected fishing zones, a wider area of control of the fishery and reduction of irregularities.

Another proposal concerns measures aimed at improving fishing techniques in order to reduce adverse impact on stocks and the marine environment. A distinction will be made between technical measures relating exclusively to coastal fisheries, which is under the responsibility of the Member States and those with a transnational dimension which will be regulated and harmonized at the EU level. These measures are aimed at increasing the selectivity of fishing gear so as to reduce the amount of discards.

The Commission also proposed measures to strengthen the enforcement of these measures. It was generally accepted that scientific opinions and suggestions must be fully taken into consideration. Out of the recognized necessity to set up an international forum, the Commission suggested the creation of a Regional Advisory Committee for the Mediterranean, which will increase the involvement of stakeholders in the management of fisheries.

Appellation of Origin for the Greek FETA Cheese

The EU Commission adopted the Regulation on the registration of appellation of (geographic) origin of the Greek Feta cheese. By this regulation, Feta cheese can be produced only in certain parts of Greece, in accordance with strict producer's specifications. Other producers are obliged to change the name of the cheese they produce or to stop production within five years.

Protection of Financial Interests

The Convention on the Protection of the European Communities' Financial Interests, which was signed by EU Member States under the third pillar as long ago as 26 July 1995, went into force on October 17, 2002. This means that, at last, the criminal codes in all Member States include a standard

criminal offence of fraud, active and passive corruption affecting the EU's finances, which is a significant step forward in the activities on protection of financial interests

Brussels, October 18, 2002

Genetically Modified Organisms

Directive 2001/18/EC on the deliberate release into the environment of genetically modified organisms came into effect on October 17. This Directive replaces a previous Directive (90/220/EEC), which had been in effect for the past ten years.

The new directive to a certain extent tightens up the former legal regulations, especially with regard to the previous testing of products and wider transparency of different stages of license issuing, i.e. regulating further the use of GMO's.

The Commission has set up a web page that will contain all relevant information. All interested parties are allowed to appear on the Internet with their objections (web address is <http://gmoinfo.jrc.it>.)

EUR 132 Million Allocated to Fight Animal Diseases

The European Commission has approved a financial package of EUR 132 million to fight transmissible animal diseases in the EU in 2003. The diseases targeted by the program have implications for both human and animal health. Furthermore, these diseases resulted in considerable market disturbance as they caused serious losses in livestock farming and some farms even had to be closed. The disturbance of the internal market is a serious barrier to intra-EU or international trade. EUR 94 million was allocated for the monitoring of BSE and animal fever.

Ireland Supported the Nice Treaty

On October 19 Ireland held a referendum concerning the Nice Treaty because citizens voted against this treaty at the previous referendum.

This time, the Irish voted in favor of the Nice Treaty.

SAPARD Program for 2002

The European Commission adopted a decision which will allow the signing of the Annual Financing Agreements for 2002 under the SAPARD program. These agreements will be signed in accordance with the needs and specific features of each candidate country. The proposal also foresees special provisions for exceptional natural disasters to be included in the agreements.

These provisions are exceptional and are aimed at improving the position of the citizens of these states and their easier integration into the family of European countries.

Midday Express, October 22, 2002

Pharmaceutical Industry - Reform

The European Commission proposed a reform of the regulations concerning pharmaceutical products. This proposal comprises a set of measures, among which there is one regulation and two directives.

Further information is available at the web address:
<http://pharmacos.eudra.org/F2/home.htm> .

The EU also issued a press release – document no. IP/01/1027 and MEMO/01/267.

Market Guarantees

The European Parliament approved the Directive on insider dealing and market manipulation (market abuse). The Directive sets up a common framework for both categories of transactions.

The Directive will not in any way handicap journalists or limit the freedom of expression and the freedom of the press. Only journalists who deliberately or negligently pass on false information and profit financially or otherwise from having done so will be affected by the Directive. The Parliament's amendments concern journalists and the information they possess.

The Council is expected to accept these amendments and the Directive is supposed to be adopted by the end of this year.

Registration of Designs

The European Commission has adopted a Regulation to allow the EU's Office for Harmonization in the Internal Market (OHIM), based in Alicante, to begin registering Community Designs in early 2003. Those registering designs in Alicante will be granted exclusive rights to use the design concerned and to prevent any third party from using it anywhere within the European Union for up to 25 years. The Council Regulation also provided that designs meeting the Regulation's requirements can also benefit from protection from deliberate copying even without prior registration with the Office (Unregistered Community Designs). Companies will nevertheless continue to have the option of registering designs under national law, as harmonized by Directive 98/71/EC, if they prefer.

It is expected that the OHIM will be in a position to receive the first pre-applications at the beginning of 2003, with the first official registrations taking effect from April 2003.

The full text of the Regulation can be found at:

http://www.europa.eu.int/comm/internal_market/fr/indprop/design/index.htm

For more details of the work of the OHIM, see:

<http://oami.eu.int/>

ECONOMIC NEWS

CANDIDATE COUNTRIES ARE SOON TO BECOME FULL MEMBERS OF THE EUROPEAN UNION

In its regular annual reports (Regular Reports and Strategy Paper) the European Commission recommended to the European Council that the negotiations on accession to the European Union should be concluded by the end of this year with Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia. The Commission considers that these countries will be ready for membership from the beginning of 2004. The recommendations are based on a rigorous but fair assessment of the state of preparedness of each candidate country. Preparations of the ten countries for membership will continue and will be strictly monitored by the Commission.

The Commission put the main emphasis on the following three suggestions:

- The Union's pre-accession strategy has proved a success. The transformation process in the candidate countries has been considerably accelerated by the prospect of enlargement.
- The accession negotiations, which have been based on the principles of own merits, differentiation and catching up can be concluded with most candidates by the end of 2002. Preparations for enlargement will continue.
- Enlargement is an inclusive process which is not yet completed with the first accessions. The European Union will continue to give its full support to those candidates that will not be in a position to participate in the next wave of enlargement.

As in previous years, the Commission measured the progress of the candidate countries towards meeting the accession criteria, (which were set down for the first time in 1993 at the European Council in Copenhagen),

according to its well established methodology which was defined and explained in 1997 in the Agenda 2000. The “Copenhagen criteria” for membership in the EU include, among other things, the following:

- Stability of institutions guaranteeing democracy, the rule of law, human rights and the respect and protection of minorities; this is a political criterion.
- The existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the Union; these are the economic criteria.
- Ability to take on the obligations of membership, including adherence to the aims of political, economic and monetary union. This criterion refers to the implementation of the Union’s legislation (*the acquis communautaire*) and ensuring its effective application through appropriate administrative and judicial structures.

The candidate countries are expected to fully meet these conditions upon accession. The Commission has therefore included a forward-looking element in this year’s Regular report that is based on progress achieved by the candidate countries, not only during the past twelve months, but over a period of several years. It also takes into account track records in implementing commitments made in the negotiations and detailed implementation plans agreed between the Union and the candidate countries concerned. This approach allows the Commission to rule on the readiness of candidate countries as of the beginning of 2004.

The Commission considers that Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia fulfill the political criteria and will have fulfilled the economic and *acquis* criteria within the timeframe foreseen for accession. These countries will be ready for membership from the beginning of 2004. The Commission recommends concluding the accession negotiations with these countries by the end of this year with the aim of signing the Accession Treaty in Spring 2003.

As regards the implementation of the *acquis*, Reports show that, overall, candidate countries have generally reached a high degree of alignment in many areas, as a result of the considerable progress in transposing the *acquis* over the last years. Steady progress has also been made in building up administrative and judicial structures required for the implementation and enforcement of the *acquis*.

In some sectors, alignment with the *acquis* needs to be finalized and the building up of necessary administrative capacities needs to be completed prior to accession. This refers to the internal market,

competition, consumer policy, the environment, transportation, energy, social policy and employment, justice and home affairs and taxation. For a limited number of sectors, the Commission identified, for individual countries, areas of the *acquis* where special efforts are needed, underlining, in some cases, the measures which need to be urgently taken. This specially refers to the sector of customs, agriculture, regional policy and financial control. The process of full alignment in all *acquis* criteria should be vigorously pursued. The Commission will regularly monitor the progress of candidate countries and report to the Council of Ministers. Six months before the envisaged date of accession the Commission will produce a comprehensive monitoring report for the Council and the European Parliament. After enlargement, the Commission will ensure proper implementation of EU law in new Member States with the same methods and rigor as in present Member States. In order to ensure smooth phasing in of EU policies, the Commission considers that for a limited time the Accession Treaty should foresee the introduction of a specific safeguard clause for the internal market (including food safety) and in the area of justice and home affairs, allowing more flexible reaction to possible problems associated with the initial period of membership. This will complement the Commission's usual instruments which ensure compliance with EU law. Such a safeguard clause should have a maximum duration of two years.

The Commission also indicates more clearly how the institution building facility for new member states proposed for the year 2004 – 2006 should be used. This facility will help finance the continued strengthening of the administrative capacity of new members, which primarily refers to supporting judicial reform and administrative improvement related to border control, the customs union, veterinary services, food safety, the environment and nuclear safety.

As far as Bulgaria and Romania are concerned, the Commission will strongly support these two countries in achieving full membership in 2007. The Commission will propose, before the Copenhagen European Council, and on the basis of the analysis in the 2002 Regular Reports, detailed roadmaps for Bulgaria and Romania to complete their preparations. An increased focus will be put on judicial and administrative reform. Pre-accession assistance should be increased gradually, but linked to the progress in implementing roadmaps. Turkey has made considerable progress toward meeting political criteria for EU membership, although not all criteria have been fully met. Turkey is encouraged to pursue the reform process, to strengthen democracy and the protection of human rights, both

in law and in practice. The Commission recommends that the European Union should enhance its support for Turkey's pre-accession preparations in order to help it strengthen its public administration, support the adoption of the *acquis* and facilitate Turkey's integration into the European economy.

At the Brussels Summit (October 24 and 25) the European Council responded positively to these recommendations and almost completely accepted them. The Summit was almost entirely devoted to enlargement. The most important decision refers to the conclusion of the enlargement negotiations with ten candidate countries at the European Summit in Copenhagen on December 12 – 13, 2002. All the Commission's recommendations concerning the fulfillment of criteria for membership by candidate countries, welcoming the progress made by Bulgaria, Romania and Turkey, as well as the need to continue EU's support for these countries, were accepted.

The Council attached particular importance to the need to continue monitoring the performance of candidates in adopting and implementing Community rules; this duty is assigned to the Commission. In addition to a general economic safeguard clause which can be invoked by any member state, two other specific clauses will be available for three years, in cases where a new member state fails to implement commitments made in negotiations, in the areas of the internal market or justice and home affairs. Key decisions were taken which finalize EU's negotiating position in relation to budgetary and financial issues until 2006. The starting point for financial and budgetary questions was the agreement to respect the financial ceilings of the Financial Perspectives 2000- 2006 set by the European Council in Berlin. An agreement was reached on a negotiating position on direct payments under the CAP. As far as allocation of structural funds in candidate countries is concerned, agreement was reached on the proposed total of EUR 23 billion for the period 2004 – 2006. Very importantly, the principle of a temporary lump-sum compensation mechanism was agreed to, ensuring that candidate countries are not worse off on joining the Union, and providing that any compensation payments remain within the annual margins of the Berlin ceiling.

Over ten years of hard work has ended successfully, and in a little over a year, ten countries will be allowed to become full members of the European Union. Europe is uniting in peace, stability and democracy, and is slowly extending toward the borders of the Balkans. Former Yugoslav republics will soon be able to say that they have common borders with the EU, taking into account everything associated with the concept of a border. Instead of a desirous look across that border, it will be better to make use of

the chance offered to us, both as a country and as a region, and for once to provide for our own future.

*Source: "Midday Express", 09/10/2002,
http://europa.eu.int/comm/press_room/index_en.htm and [http:// www.ec-eu-delegation.com.cy/en/news/021031d.htm](http://www.ec-eu-delegation.com.cy/en/news/021031d.htm)

FRY: Basic Economic Indicators

	$\frac{\theta 2001}{\theta 2000}$	IX 2002	$\frac{IX 2002}{VIII 2002}$	$\frac{IX 2002}{IX 2001}$	$\frac{I-IX 2002}{I-IX 2001}$
GDP growth rate*	5.5%	...	...	...	...
Industrial production	0.0%	...	7.0%	4.7%	1.1%
Montenegro	-0.7%	...	15.0%	18.3%	-2.7%
Serbia	0.1%	...	6.5%	3.8%	1.3%
Central Serbia	-4.0%	...	4.6%	6.4%	1.7%
Vojvodina	9.2%	...	10.4%	-0.7%	0.5%
Average nominal net wage - Serbia in YuD.	125%**	9,674	-2.7%	40.2%	14.4%***
Nominal gross wage - Serbia in YuD.¹	...	13,921	-2.8%	40.1%	14.6%***
Real growth in nominal net plate - Serbia, in %²	16.6%**	...	-4.0%	24.5%	5.05%***
Ratio of consumer's basket to average net wage	...	1.2	0.0%	-30.5%	-31.0%
Unemployment rate in Serbia, registered³	4.4%	31.7%	5.4%	17.5%	7.2%
Current account, in USD million	-87.1%	...	...	...	...
Trade balance, in USD million	-58.5%	-291	-3.9%	-43.4%	-5.6%
Exports, in USD million	10.5%	190	-2.2%	5.8%	15.3%
Montenegro	10.3%	4	-48.4%	-78.5%	-17.9%
Serbia	10.4%	187	-0.4%	14.6%	19.1%
Imports, in USD million	30.3%	481	-5.3%	25.6%	20.9%
Montenegro	49.3%	29	-20.0%	0.6%	-6.7%
Serbia	27.9%	451	-4.1%	29.1%	25.7%
Money supply (M₁), in YuD billion (end of period)⁴	109.8%	115.90	0.2%	105.4%	115.7%
Cash	103.4%	39.09	-3.6%	105.0%	137.8%
Deposit	113.7%	76.76	2.2%	...	...
Real money supply, in DEM million (end of period)	94.1%	1,896.80	-0.1%	102.7%	112.7%
NBY hard curr. reserves in USD m (end of period)⁴	123.0%	2081	0.3%	92.7%	122.9%
Discount rate - monthly level⁴	-26.65%	0.75%	0.0%	-50.0%	-64.2%
Market interest rate - monthly level⁴	-18.40%	1.44%	-14.8%	-44.6%	-53.8%
Retail prices - Serbia⁴	91.8%	...	1.5%	15.2%	20.5%
Consumer prices - Serbia⁴	93.3%	...	1.3%	11.4%	17.7%
Producer prices - Serbia⁴	87.8%	...	0.1%	6.1%	8.0%
Medium exchange rate (YuD/EUR) - average⁴	16.5%	61.10	0.3%	1.4%	-0.001%

*Preliminary figures

** According to the previous methodology.

***The figures refer to growth in wages in September 2002 relative to December 2001.

¹By the gross wage methodology applied as of June 1, 2001..

²Deflator is cost-of-living index.

³The figures include the employed in socially-owned sector, private sector and SMEs

⁴Figures refer to October .